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Contents.

Professional Notes.

MR. FREDERIC WALMSLEY, of Manchester and Bolton, the Senior Past President of the Society, celebrated his Golden Wedding on Tuesday, March 22nd, when at the request of the President, Mr. Arthur E. Piggott, of Manchester, attended upon Mr. and Mrs. Walmsley and handed to them on behalf of the whole of the members of the Council a silver gilt porringer with amber handles and a silver gilt salver. At the same time Mr. Piggott conveyed to Mr. and Mrs. Walmsley the congratulations and good wishes of the Council upon this happy celebration. Mr. Walmsley is an original member of the Society, so that he has been an Incorporated Accountant during 47 out of the 50 years of his married life. He occupied the position of President in the years 1894-1898.

A point arose at the annual general meeting of a well known company which if not novel is of general interest. On a motion for the re-election of the auditors, a shareholder moved that Messrs. A. B. & Co. be re-elected auditors of the company at a fee to be agreed with the board of directors. This was objected to by another shareholder on the ground that the Act provided that the remuneration of the auditors should be fixed by the company in general meeting. The solicitor of the company, a partner in a well known firm of commercial lawyers, advised the chairman that there was nothing to prevent the delegation of the power of the shareholders in this respect to the directors.

Thereupon the chairman said that he would put a specific resolution to the meeting authorising the directors to fix the remuneration. This was agreed to by all the shareholders except the objector, and subsequently the chairman put the formal resolution for the re-election of the auditors on these terms, which was carried without a dissentient. The company referred to has a large number of branches and two or three important subsidiaries, and it is not advisable to limit the auditors' work. The point could, of course, be got over by reappointing the auditors and fixing their remuneration for the last audit, but the solicitor of the company was quite satisfied with the action taken at the meeting. No doubt the intention of the Act is to secure the independence of the auditors in respect of the board of directors, but where matters are working normally it is difficult for shareholders, without the advice of the directors, to decide upon the appropriate fee with due regard to the amount of the work and responsibility entailed.

Mr. Justice Rowlatt retires from the Bench before the commencement of the Easter Sittings.

His name will be familiar to every member of the accountancy profession in connection with Income Tax matters. Nearly all the important cases of this character in the King's Bench Division have come before him, and most of his judgments have been affirmed when they have been taken to a higher Court. The Attorney-General (Sir Thomas Inskip) in expressing appreciation of the kindness and consideration which they had always received from His Lordship, said he had made it a positive pleasure to argue cases before him.

Three additional members have been added to the Committee which was set up by the Treasury in 1927 to deal with the codification of Income Tax law. The newly appointed members are Sir Gilbert Garnsey, F.C.A., Mr. C. L. King and Mr. F. D. Morton, K.C. The committee now consists of Lord Macmillan, K.C.. Chairman; Sir F. F. Liddell, K.C., Vice-Chairman; Mr. A. M. Bremner, Sir Gilbert Garnsey, F.C.A., Sir W. M. Graham-Harrison, K.C., Mr. R. P. Hills, Mr. C. L. King, Mr. E. M. Konstam, K.C., Mr. F. D. Morton, K.C., and Sir John Shaw.

An Income Tax decision of some importance in relation to voluntary payments was given by the House of Lords last month in the case of *Stedeford* (*Inspector of Taxes*) v. *Beloe and Others*. The facts of the case, which were not in dispute, showed that the Bradford College had power to apply its surplus funds in the payment of a pension or retiring allowance to any person who might have held the position of headmaster or assistant master of the College, and under this power a pension was granted to the late headmaster, the Rev. R. D. Beloe. The payment depended entirely on the goodwill of the governing body and there was no consideration given by Mr. Beloe. Further, the governing body might at any time have rescinded the minute under which the pension was granted.

Lord Dunedin in delivering judgment said it was clear that the pension was not chargeable to Income Tax under the old Schedule E. It was not given in respect of the office of headmaster, but because Mr. Beloe no longer held that office. Neither was it chargeable under sect. 18 of the Finance Act, 1922, because it was not a real profit. It had been held again and again that a mere voluntary payment was not a profit because it was not in any proper sense income, but merely a casual payment dependent on goodwill. The case was distinguished from *Duncan* v. *Farmer*, because in that case the annuity was granted in consideration of the recipient leaving the parish and if it had not been paid it could have been sued for. In the present case the payment was purely voluntary, and their Lordships therefore held that it was not subject to Income Tax. The appeal of the Crown was accordingly dismissed.

The question of whether profits illegally made are subject to Income Tax arose in the case of *Mann* v. *Nash* (*Inspector of Taxes*), heard by Mr. Justice Rowlatt in the King's Bench Division last month. Certain automatic machines which the taxpayer had supplied to licensed premises were held to be illegal and it was claimed that the profits derived from those machines, being illegal profits, could not be assessed to Income Tax. The Crown contended that the machines formed part of the taxpayer's ordinary lawful business and that the profits derived from them could not be separated, and were therefore subject to tax. His Lordship in giving judgment said that the appellant had many machines which were quite legal and that the Legislature had not assented to the suggestion that the application of the Income Tax Acts was restricted to lawful business only. There was no force in the argument that the State should not take profit from what the State prohibited. The profits in question were accordingly liable to assessment.

The basis of assessment of income from abroad was the subject of another decision by Mr. Justice Rowlatt in the case of *Back* v. *Whitlock*. Mr. Whitlock, who had been resident abroad, came to this country on April 7th, 1927, to take up permanent residence here. Both before and after coming to this country he had income falling within the description "Stocks, Shares and Rents," and the chief point at issue was whether the income was to be assessed for the year 1927-28 as if the shares, &c., were a new source of income, or whether the assessments should be based upon the income for the preceding year, although such income was not previously liable to British Income Tax. The General Commissioners decided in favour of the taxpayer and the Crown appealed.

His Lordship considered himself bound by the decision of the House of Lords in the case of *Fry* v. *Burma Corporation*. In that case, owing to changes in control and other circumstances, a company not previously assessable here became liable to British Income Tax, and it was held that, provided the same trade was carried on throughout, the assessment for the year in which the company first became liable in this country

should be made on the same basis as if the company had previously been liable and not as if a new business had been set up. The Crown's appeal in the present case was accordingly allowed.

An appeal by the Crown in the case of *Seldon (Inspector of Taxes)* v. *Croom-Johnson* raised the rather novel question of whether the profession carried on by a King's Counsel is a different profession from that of a junior Barrister. On behalf of Mr. Croom-Johnson it was contended that upon becoming a King's Counsel he had set up and begun a new profession and was therefore entitled to be assessed on the profits of the year of assessment and not on the profits of the preceding year. It was pointed out that a King's Counsel was not allowed to draw pleadings, to settle interrogatories or a notice of appeal, to advise on evidence or to appear in any Court without junior counsel being instructed with him, except in cases where he was already engaged before his promotion. Prior to his appointment as a King's Counsel Mr. Croom-Johnson carried on his practice partly in Bristol, where he had professional chambers, which he had since discontinued, and he said that his earnings in the year of assessment were substantially less than his earnings in the preceding year. He accordingly claimed that the profession carried on by him as a King's Counsel was in fact a different profession from that which he had previously carried on as a Barrister-at-Law.

Mr. Justice Rowlatt in giving judgment said he wished to emphasise that the question he had to decide was whether the respondent had set up a new profession; it was not whether he had begun a new business. The question could not in all cases be decided by labels. Wherever a practising Barrister was called on to go, there he went. His work was not local in the sense in which many other professions were local, and it was quite impossible to regard a change of chambers as throwing any light on the question at all. Although the practice of the legal profession was that King's Counsel abstained from doing certain classes of work, they were nevertheless engaged, just as they had been as Juniors, in the great work of advocacy. King's Counsel and members of the Junior Bar carried on the same profession, only the former occupied a higher rank or degree within it and were therefore much more selective in the business which they did. There was no evidence on which the Commissioners could find, as they had done, that a new profession had been set up. The appeal of the Crown must accordingly be allowed.

In a lecture delivered before the Incorporated Accountants' Students' Society of London and District on the subject of Sur-tax on limited companies, Mr. H. A. R. J. Wilson, F.S.A.A., drew attention to the fact that failure to pay a reasonable dividend within a reasonable time was sufficient to attract liability to the company to pay the additional Sur-tax which would have fallen on its members had the whole of the profits been distributed; and he added that it was most inequitable that no provision was made for deducting as against each member his appropriate Sur-tax when the profits were subsequently divided. The result of this, he said, was that all the members of the company bore the Sur-tax so levied in proportion to their share holdings whether they were Sur-tax payers or not.

On an appeal by the Crown against decisions of the Income Tax Commissioners in relation to the Bullcroft Collieries and the Markham Colliery, allowing the cost of infall damage to the lessors of coal seams as an admissible charge for Income Tax, Mr. Justice Rowlatt decided that the Commissioners were right in the decision they had arrived at, the amounts in question being in the nature of recurring business expenditure although paid once and for all so far as a particular section of coal worked was concerned. The Crown's contention that the payments were of a capital nature and inadmissible deductions for revenue purposes could not therefore be upheld.

Fresh arrangements have been under the consideration of the Board of Inland Revenue with regard to the assessment of Income Tax on Building Societies, and a new scale has now been agreed by representatives of these societies with the Board, the terms of which provide that the Building Societies shall pay Income Tax on the whole of their annual profits, but that an allowance of 60 per cent. of the standard rate of Tax will be made to the societies in respect of all the interest distributed by them upon investments or deposits not exceeding £5,000 each in amount. It is understood that the societies will continue to pay to their investors and depositors the full rate of interest, thus preserving the Tax free character of Building Societies investments as hitherto.

We publish in another column a statement submitted to the Chancellor of the Exchequer by the Executive Council of the Association of British Chambers of Commerce on the subject of National Finance and Taxation. The statement

calls attention to the lack of balance between direct and indirect taxation, in relation to which it is pointed out that in the year 1914 the yield of indirect taxation was 74 per cent. of the yield of direct taxation, whereas in the year 1930-31 the corresponding figure was only 51 per cent.

Attention is also drawn to the question of Income Tax on salaries and fees where, owing to bad times, employment is continued without remuneration. As an example of this the case is cited of a director agreeing, on account of the abnormal depression in trade, to stay in office without remuneration. In such a case, as the law now stands, he is taxed on his income for the previous year and therefore pays tax in a year in which he earns no fees. Directors do not as a rule realise that there is a difference between waiving fees and entering into a fresh contract which might have the effect of overcoming the hardship.

Arising out of the default of New South Wales to meet its interest obligations, which have consequently fallen upon the Commonwealth Exchequer, a resolution has been passed by the Commonwealth Government specifying the revenues of New South Wales which they propose to attach under the Finance Agreement (Enforcement) Act. The New South Wales Premier, Mr. Lang, contends that this Act is *ultra vires*, and has caused a writ to be issued against the Commonwealth claiming that the Act is invalid and seeking an order to restrain its enforcement. The matter is coming before a full bench of the High Court, and the result will be awaited with much interest.

The notice issued by the Stock Exchange Committee for General Purposes that it approved in principle the division of commission with agents on the basis (1) that not more than 50 per cent. should be allowed to member banks of the British Bankers' Association and certain other banks whose names should be registered, and (2) not more than 33⅓ per cent. should be allowed to any other agent, has raised strong opposition amongst members of the Stock Exchange, and at a meeting held last month, which was attended by more than 800 members, the following resolutions were passed :—

(1) That in the opinion of this meeting the allowance to bankers and agents as suggested by the Stock Exchange Committee is excessive.

(2) That not more than 33⅓ per cent. should be allowed to Joint Stock Banks or private banks who were members of the British Bankers' Association, and not more than 25 per cent. to other registered agents, and

(3) That no commission of 20s. or under should be divisible with any bank or other agent.

The position with regard to half-commission men in the exclusive employ of brokers was not in any way discussed.

The United States Tax Bill contains some drastic proposals for new taxation with the object of balancing the Budget of the United States for the year 1932-33. An important feature of the Bill is a 2½ per cent. manufacturers' sales tax on practically all commodities except necessaries of life. Accompanying this are increases in the rates of Income Tax and a reduction in the exemptions ; increases in Sur-tax ; the imposition of a gift tax to prevent the evasion of estate duties ; and taxes on various oils and other produce. It is estimated that these additional impositions will produce $1,096,000,000 which combined with savings in various directions will result in a small budget surplus. These, however, are merely proposals, and it remains to be seen what the modifications will be before the Bill emerges from Congress. The first action of the House of Representatives has been, by a majority of about 70, to reject the sales tax, which was calculated to provide nearly half the total amount required to balance the Budget. Other sources of income will therefore have to be found if the object in view is to achieved.

A deputation representing more than 60 organisations submitted to the Chancellor of the Exchequer last month a memorandum advocating the " complete and equitable assessment to Imperial taxation " of co-operative societies. The memorandum stated that a strong sense of grievance prevailed in commercial and trade circles on this subject. Assisted by comparative immunity from taxation, co-operative societies enjoyed an undue advantage in developing their interests in almost every sphere of trade and industry. When the spokesmen of these societies emphasised, as they did, the payments made by them under Schedule A on all property owned and under Schedule B on profits derived from the occupation of land, the natural rejoinder was that all other forms of trade were also liable thereunder according to Income Tax law, but in addition they were liable under Schedules C and D while the co-operative societies were not.

The vital point stressed by the deputation was that a volume of trade amounting in the aggregate

to over £300,000,000 per annum should not be privileged simply because a number of people chose to do their business in a particular way to suit themselves and for their own advantage. The meeting was held in private, and the reply of Mr. Chamberlain is therefore not available.

Sir Walter Kinnear, Controller of the Insurance Department of the Ministry of Health, in a lecture delivered before the Insurance Institute of London dealing with the present position of the Health and Pensions Insurance scheme said that the disposable surplus at the recent valuation had fallen by over £7,000,000 as compared with the previous year. While certain approved societies had done well, others had been compelled to reduce their additional benefits or withhold them altogether.

The decline in the surplus, he said, was due mainly to the heavy claims for sickness and disablement benefit. The claims of men for sickness benefit for the period between the last two valuations were 92 per cent., and for disablement benefit 90 per cent. of the financial provision. The corresponding percentages for women were 104 for sickness and 138 for disablement, although the financial provision for women was 60 per cent. greater than it would have been if the rates of sickness applicable to men had been employed. It accordingly appeared that although reserves which had been prudently set aside would provide a bulwark for some time to come, some remedial measures designed to restore soundness to the finances of women's insurance would ultimately become necessary.

The same subject was alluded to by Mr. Henry Lesser, the President of the National Federation of Employees' Approved Societies, at the annual meeting of the Federation. Referring to the serious loss of contributions due to unemployment, he said that if the experience should continue many societies were likely to find themselves in a precarious position at the next valuation. Unless the State was prepared to subsidise the Insurance Fund in a substantial way the approved societies could not continue to be liable for benefits to persons who failed to pay the corresponding rates of contribution.

An important judgment has been delivered by the Court of Appeal in the case of *E. B. Savory and Co.* v. *Lloyds Bank Limited*, in relation to the responsibilities of banks in dealing with cheques paid into accounts other than those of the payee. In this connection some interesting observations were made by Lord Justice Scrutton, to which we hope to refer more fully in a later issue.

REMOVAL OF RESTRAINT ON ANTICIPATION.

A MARRIED woman, and only a married woman, may be restrained by the terms of a will or settlement from alienating, by way of anticipation, property settled to her separate use during coverture, the underlying principle being that she may thus be protected against the influence or coercion of her husband. Such a clause absolutely prevents her from selling, mortgaging or dealing with the property in anticipation, but it does not apply to the income actually accrued due, and on the determination of the coverture the restraint is at an end. The restraint may be applied either to the corpus or income, and in a marriage settlement the wife's income is usually directed to be paid to her without power of anticipation.

The Conveyancing Act, 1911, sect. 7, repealed and extended sect. 39 of the Conveyancing Act, 1881, and empowered a Judge of the Chancery Division to bind the interest of a married woman notwithstanding she was so restrained. The Law of Property Act, 1925, sect. 169, replaces sect. 7 of the Act of 1911, and provides that where a married woman is restrained from anticipation or from alienation in respect of any property or any interest in property belonging to her, or is by law unable to dispose of or bind such property or her interest therein, including a reversionary interest arising under her marriage settlement, the Court may, if it thinks fit, where it appears to the Court to be for her benefit, by judgment or order, with her consent, bind her interest in such property.

By sect. 52 of the Bankruptcy Act, 1914, where a married woman who has been adjudged bankrupt has separate property the income of which is subject to a restraint on anticipation, the Court has power, on the application of the trustee, to order that the whole or some part of such income be paid to the trustee for distribution amongst the creditors, but in the exercise of such power the Court must have regard to the means of subsistence available for the woman and her children.

The principles governing the operation of sect. 169 of the Act of 1925 are that the Court will not remove the restraint unless exceptional circumstances are shown to exist which justify the Court in the interests of the woman in interfering in the trusts of the settlement, and each case is considered from the point of view of the married woman.

The Court will not make an order under sect. 169 of the Act of 1925, in a case where it is sought to remove the restraint on anticipation merely for the purpose of raising money for the

payment of debts incurred through the extravagance of the married woman or her husband. In *re Pollard's Settlement* (1896) it was said that attempts had been made by married women, who had got into debt either through their own or their husband's extravagance, to endeavour to obtain orders for the removal of the restraint. If a judge were to yield to such applications, the result would be that a married woman would only have to involve herself in difficulties and make piteous affidavits. If such a system got into vogue she would be able to force the hand of the Court, and, in effect, destroy the restraint on anticipation.

It is not sufficient, apparently, to show that the proposed arrangement will result in some considerable saving in order to induce the Court to put sect. 169 into operation. Where it is sought to remove the restraint for the purpose of paying debts, the Court requires a detailed list of liabilities and also a full explanation of how those debts were incurred.

Another point to be considered is the effect which the proposal will have on the wife's future resources, and where a wife applied to remove the restraint on anticipation to enable her to carry out a scheme under which it was proposed she should charge her income to pay her husband's debts, the application was refused. In that case the effect of the proposal would have been to reduce the wife's income from £350 to £170 a year, and the Court held that in the circumstances such a reduction of the wife's income could not be for her benefit.

The power given to the Court of dispensing with a restraint on anticipation is a discretionary power, to be exercised with great caution and only where a strong case is made for it, and is not necessarily to be exercised because it will be for the benefit of the married woman. In *re Little* (1889), a fund was settled on a married woman for life for her separate use with a restraint on anticipation, remainder to her children and issue as she should appoint, and in default of appointment to the children equally. She, being in straightened circumstances, arranged with her eldest son that his fifth share of the trust funds should be applied in a specified way for her benefit. With a view to this she released her power of appointment over the trust funds, and then applied to the Court to have the fifth share of the son in the agreed part of the funds, together with her life interest therein sold, and the proceeds applied as above, but the Court, in the exercise of its discretion, refused to dispense with the restraint on anticipation in order to give effect to a release executed by the donee of the power for her own benefit.

The Court will sanction a scheme for the payment of a woman's debts where this is shown to be for her advantage. In *Hodges* v. *Hodges* (1882), a married woman was entitled to the income of a fund in Court for her life, for her separate use without power of anticipation, with remainder in trust for her children, and in default of issue in trust for such persons as she should appoint, and in default of appointing, to herself absolutely. She having had no children, and being past the age of child-bearing, and having contracted a number of debts, for payment of which the creditors were pressing her, she, with her husband, applied to the Court to exercise its power to remove the restraint on anticipation, and to order part of the fund to be paid out to her to enable her to pay her debts. It was held that, whether she did or did not exercise her power of appointment, the fund would at her death be subject to the payment of her debts, and that under the circumstances the restraint ought to be removed, and a portion of the fund paid out to her.

In *re Milner's Settlement* (1891) restraint on anticipation of property settled on a married woman for life, with remainder to her husband for life, was, under the circumstances, removed till further order, to the extent of allowing the income to be applied in payment of premiums on policies on the husband's life, and towards keeping down interest on mortgages in which she had purported to join with her husband, on the mortgagees undertaking to reduce the rate of interest, and not to enforce payment of the principal without leave of the Court.

These decisions show that the sole consideration for the Court is the benefit of the married woman, and no application for removal of restraint on anticipation will succeed unless it shows not only that the proposed scheme will relieve the married woman from the immediate worry of creditors, but also that her future position will not be jeopardised.

RIGHTS OF PARTNERSHIP NOMINEE.

IT is a well accepted general principle that partners may by the articles of partnership give their consent in advance to the admission later on of a new partner duly nominated in the manner prescribed by the articles and fulfilling any conditions therein laid down. In other words, the principle of mutual consent which is at the foundation of the partnership relation remains

undisturbed by the charging of, or limiting of, that power to assent with conditions which are open to fulfilment at any time during the currency of the partnership. The question whether a nominee, as such, acquires rights in the partnership business which cannot be defeated must depend for its answer upon the terms in the articles which prescribe the conditions, if any, which must be fulfilled by such nominee before he can be admitted, as the original partners are bound to admit him only to the extent and according to the manner provided by the articles.

This question has come before the Courts from time to time, and the decisions which it has evoked upon varying facts are instructive illustrations of the validity of the general principle. The following cases are most commonly cited and worthy of examination.

In *Page* v. *Cox* (1852) the articles of partnership authorised the nomination by will of a successor to a deceased partner; a widow was so nominated; it was held that by virtue of the articles and the nomination thereunder a trust had been created to enable the widow to obtain her share of the partnership assets, such trust attaching to the partnership property.

In *Byrne* v. *Reid* (1902), Henry Byrne took into partnership three of his employees, for a term of fourteen years, as from January, 1892. He became managing partner with nine-twelfths of the net profits as his share, the remaining three-twelfths being the shares of the other partners. The articles provided that Henry Byrne should be at liberty to introduce a son or other male of the age of twenty-one to be a partner with the others and to succeed to the whole or a part of his share; such nominee upon introduction was to execute a proper deed binding himself to observe the same terms and conditions as bound the other partners under the original articles. In 1898, Henry Byrne nominated his son Stanley to come into the partnership with a succession to one-twelfth of the profits of the business. It was held that the execution by Stanley of a proper deed was not a condition precedent to but subsequent to his entry into the firm. The refusal of the other partners to receive him or to co-operate with him in the business was a wrong which a Court of Equity could remedy in its own peculiar ways. It was a wrong for which damages would be an inadequate remedy, and one for which, on the other hand, an order for specific performance would be inappropriate. The other remedies available were:—(i) An injunction to prevent the other partners excluding Stanley; (ii) an order for the execution of any necessary documents to define the interests of the parties; (iii) an order for an account to be taken; or (iv) dissolution of the partnership. A trust, declared the Court, attached to the partnership assets in favour of Stanley to the extent of the share specified. As to that share Stanley was entitled to have the legal title vested in him jointly with his co-partners.

These two cases were exhaustively considered in the more recent case of *In re Franklin and Swathling's Arbitration* (1929), which involved a comprehensive review of the legal rights of a nominee under articles of partnership which empower a partner to nominate a successor. It merits detailed examination since, although at first sight the decision seems to involve hardship upon the nominee in the particular circumstances, the established principles were thereby re-affirmed, and from an illuminating angle.

By the terms of a deed of partnership constituted in 1909, it was provided: (*a*) Each original general partner may nominate a new general partner to succeed him, either to the whole or to a portion only of the nominating partner's share of profits, such nomination being valid if made by will or codicil—in which case the nominee's succession shall date from the time of the nominator's death; (*b*) the nominee must comply with the specified conditions of "qualification" (including terms relating to age, experience and the like); (*c*) the admission of the nominee shall, however, be dependent upon the consent of the remaining general partners, such consent not to be unreasonably withheld; (*d*) any dissatisfaction with the decision of the general partners to decline to assent to a nominee's admission shall be referred to arbitration. These provisions were set forth together in one clause in the articles. In a later clause it was further provided that all differences arising between the partners (or their representatives) during the currency of the partnership or afterwards should be referred to a single arbitrator in conformity with the provisions of the Arbitration Act, 1889.

Sect. 5 of the Arbitration Act, 1889, provides that if the submission requires the appointment of a single arbitrator and the parties to it, after differences have arisen for reference, do not agree upon an appointment, any party to the submission may serve a notice upon the other parties calling upon them to agree upon such an appointment. If the notice is not productive of an appointment within seven days the Court or a Judge may make the appointment upon application by the party who served the notice.

In the case before the Court the son of a deceased partner, who had been duly nominated under his father's will to succeed him and

fulfilled, apparently, the terms of the required qualifications as specified in the clause of the partnership articles above-mentioned, had been refused admission into the partnership by a resolution of the general partners passed at a meeting held in 1926, the father of the nominee having died in 1918. The nominee was dissatisfied with this resolution of the general partners and demanded arbitration, without success. Thereupon he made application to the Court for the appointment of an arbitrator under the provisions of sect. 5 of the Arbitration Act, 1889. His application was refused by Mr. Justice Maugham on the ground that only a party to the "submission" might make such an application. Here the nominee was not such a party, for he was no party to the deed of partnership which contained the "submission" to arbitration. It had been contended for the applicant that although he was no party to the partnership agreement, nevertheless the surviving general partners stood in the relationship to him, as nominee, of trustees of a share of the partnership—on the authority of the previous judgments in the cases of partnership nominations above mentioned.

The learned Judge, however, distinguished the present case from the earlier decisions and pointed out that the question whether the nominee was a *cestui que trust* in relationship to the general partners was the very question which would have had to be decided by the arbitrator had one been appointed, and the nominee was not entitled to apply for an arbitrator to be appointed.

NEW STUDENTS' SECTION FOR NORTH-WEST LANCASHIRE DISTRICT.

A Students' Section has been formed at Burnley as part of the North-West Lancashire District Society. The new section, of which Mr. W. Ashworth, A.S.A.A., is President, and Mr. N. Broadbent, F.S.A.A., Honorary Secretary, will provide meetings for students in Accrington, Burnley, Colne, Nelson, Padiham, and the neighbouring districts.

The inaugural meeting of the Burnley Students' Section is to be held on April 8th, in the Small Assembly Room of the Burnley Mechanics' Institute. Speakers at the meeting will include Mr. Thomas Keens, F.S.A.A., Chairman of the District Societies' Committee, and Mr. Ernest E. Edwards, B.A., LL.B., Parliamentary Secretary to the Society of Incorporated Accountants. The Mayors of Burnley, Accrington, Colne, and Nelson, the Bishop of Burnley, the Head of Burnley Grammar School, and representatives of other professions and the Chamber of Commerce, have been invited to attend.

The Officers and Committee of the new section extend a cordial invitation to all Incorporated Accountants and students in the Lancashire and Yorkshire Districts to be present at this meeting.

NATIONAL FINANCE AND TAXATION.

A Statement submitted to the Chancellor of the Exchequer by the Executive Council of the Association of British Chambers of Commerce.

(1) For many years past the Association of British Chambers of Commerce has drawn the attention of successive Chancellors of the Exchequer to the serious effects which excessive national expenditure and the consequent high level of taxation have had on the trade and industry of the country. The Association has submitted that the expenditure budgeted for each year since the war was not only more than the country could afford, but that the taxation which was imposed to provide that expenditure was crippling industry, discouraging enterprise, and hindering trade recovery. These effects have in themselves been a source of weakness to the Exchequer because they have reduced the revenue bearing area from which it has been possible to collect taxation. They have in turn increased the burdens on those left to bear them.

(2) The Association considers that these effects played an important part in leading up to the crisis which occurred last autumn. With the steps then taken, the Association was in complete agreement. The Association desires to express its appreciation of the efforts which have been made to place the country's finances on a sound basis. But in order that there may not be a recurrence of such effects from similar causes, the Association desires to urge that until the trade and industry of the country again reach prosperous times the national expenditure should be further curtailed and consistently reduced. If necessary to secure this end, legislation should be repealed.

(3) The Association understands that steps have been taken to reduce the estimated national expenditure for the coming year by some £78,000,000. While the Association does not suggest that the methods to secure the whole of the economies recommended by the May Committee in their Report need be adhered to in every detail, the sum total of these economies should be aimed at. The total expenditure of the country will in the coming year still be in the region of £800,000,000, which the Association considers is more than the country can afford.

(4) The Association considers that a reduction in income tax is essential, as the present level of that tax is depriving industry of the resources necessary for development and expansion, and is placing onerous burdens on the taxpayer. The Association desires to point out that the lack of balance between direct and indirect taxation is inflicting unfair hardships on a large section of the community. In 1913-14 the yield of direct taxation was £93,000,000 and of indirect taxation £69,000,000, or 74 per cent. of the yield of direct taxation. In 1930-31 the yield of direct taxation was £462,000,000 and of indirect taxation £240,000,000, or 51 per cent. of the yield of direct taxation.

(5) The Association considers that the Government should make a further effort to secure economies in the expenditure of local authorities. There should be for a time a complete cessation of new duties imposed on local authorities and grants in aid should be rigidly cut down. Nothing will give a greater incentive to the recovery of trade than the lightening of the existing overwhelming burden of taxation, a burden which is far in excess of that borne by foreign countries which are our trade competitors.

(6) The May Committee made a number of recommendations to limit future increases of expenditure.

Amongst these latter recommendations was one relating to the Road Fund. The May Committee recommended that it should be abolished and that the proceeds of all motor taxation should be left in the Exchequer, and that all grants for roads should be provided on annual Parliamentary votes. The Association considers that these recommendations should receive immediate attention. The May Committee stated in paragraph 296 of their Report with reference to the Road Fund :—

> "As it is now being administered, this Fund has become a liability on the national finances, and in our view drastic action is necessary to remedy the position. First among the steps we recommend is the abolition of the Fund and placing expenditure on road grants on the annual votes of Parliament. The old arguments in favour of the existence of a separate Fund have mostly lost their force. There is no longer any clear cut division between road finance and the general budget either on the revenue or on the expenditure side ; the term 'Self-supporting Service' is now clearly a misnomer : but what impresses us most of all is the wholly inadequate financial control that is being exercised over road expenditure. It is far easier to get £1,000,000 spent on roads than £100,000 on any service requiring express Parliamentary sanction. We do not blame the Treasury for this state of affairs, though Treasury sanction is necessary for all expenditure from the Road Fund. Rather do we regard it as the natural consequence of a system that allocated a rapidly expanding revenue to a particular service irrespective of the needs of the service and with no power reserved to Parliament to check its growth. The Road Fund has come to be regarded by successive Governments as a convenient means of financing grandiose projects without the inconvenience of obtaining Parliamentary approval and providing for the cost in the annual Budget."

The Association supports these recommendations of the May Committee and believes that it would be in the interests of all concerned if they were adopted by the Government.

(7) The Association desires again to draw attention to the unfair advantage which has for so many years been accorded to co-operative societies in the matter of taxation. A special committee of the Association has considered the position, and a report is presented with this statement setting out the results of the investigations of the special committee. The Association does not object to the principle of co-operative trading, but it does object to co-operative societies being relieved of any taxation whatever which other traders have to bear. Further, as these societies are continuously buying up tax-paying businesses, which then no longer pay income tax under Schedule D, the effect is becoming increasingly serious. The Association has not only in mind the effect of this unfair competition upon the multiple shop companies, and the large stores (which are amongst the heaviest taxpayers in the country), but also its effect upon the thousands of small shopkeepers who suffer grave oppression from this unfair competition subsidised by the State to their detriment, and also to the ultimate loss of all other income tax payers. The Royal Commission on the Income Tax, 1920, after very careful and full consideration, recommended in effect that co-operative societies should be treated exactly as limited liability companies trading in similar circumstances and under similar conditions. The Association trusts that this wrong may be righted in the forthcoming Budget.

(8) At our deputation last year, the Chancellor of the Exchequer stated that he would afford this Association, and other Associations representing trading interests, an opportunity of studying the Report of the Committee for the Codification of the Income Tax, which was appointed in 1927, and of submitting the views thereon prior to legislation being introduced in the House of Commons. The Association hopes that the Report of the Committee will be published at an early date and that the opportunity desired of studying the Report will be accorded to the Association in due course.

(9) The Association is grateful for the more liberal interpretation which the Board of Inland Revenue announced to this Association that it intends to place upon Rule 7 of Cases 1 and 2 of Schedule D, but in the Report presented by the Association to the then Chancellor of the Exchequer in 1930, the Association urged equitable treatment of all wasting assets. The Association trusts that the remainder of the suggestions contained in its report may receive the favourable consideration of the Government in the near future.

(10) The Association draws attention to the question of income tax on salaries and fees where owing to bad times the employment is continued without remuneration. Under the Finance Act, 1927, the basis of assessment was changed from the amount of the remuneration for the year of assessment to that of the previous year, and special provision made for the year in which employment ceases. No provision, however, is made for cases where, in order to meet the abnormal depression in trade, a director agrees to stay on in office without remuneration. As the law now stands, such a man is taxed for the first year in which he received no remuneration on the amount received in the previous year, and therefore in some cases pays tax for, say, four assessment years for only three years' salary. In December last, in reply to a question in the House of Commons on a similar point, it was stated that it depended on the form by which the arrangement for the reduction of salary was made, and that if it was in the form of a new contract then the taxpayer would pay on the reduced emoluments. Many of those affected did not know of this at the time of the change ; they merely agreed to continue without remuneration in the same employment and have been affected in the way described. It is hoped that some redress may be given in such cases.

(11) The Association suggests that a tax should be imposed upon commercial travellers visiting this country from countries which impose taxes on our commercial travellers entering their countries. This suggestion is put forward with a view eventually to a reciprocal arrangement for the removal of such taxes.

QUESTIONS IN PARLIAMENT.

Income Tax Repayments.

Mr. HUTCHISON asked the Financial Secretary to the Treasury whether any attempt is made by his Department to estimate the annual amount which may be claimed in the form of refunds by Income Tax payers ; and, if so, what were the estimated amounts allowed for during each of the past five years, together with the amounts actually claimed ?

Major ELLIOT : No estimate is made of the Income Tax that may ultimately prove to be repayable in respect of any year of Income Tax assessment. Repayment may be claimed within varying time limits after the end of a year of assessment, and the bulk of the repayment made in any financial year relates in fact to previous years of

assessment. The amounts of Income Tax repaid in the last five years are as follows :—

In 1926-27	..	..	..	£43,777,048
In 1927-28	..	..	..	48,813,407
In 1928-29	..	..	..	43,394,549
In 1929-30	..	..	..	45,523,622
In 1930-31	..	..	..	48,502,037

Income Tax Law.

Captain P. MACDONALD asked the Chancellor of the Exchequer when it is anticipated that a report will be received from the committee which is investigating the possibility of simplifying and codifying Income Tax law ; and whether such report will be made public ?

Major ELLIOT : The committee has made very substantial progress with its task, but I am unable to give any forecast of the date by which it will be completed. The question of publication of the report can, I think, only be decided when it is actually received.

The Companies Act.

Sir ARTHUR MICHAEL SAMUEL asked the President of the Board of Trade if he will consider an agreed suggestion from the three English and Scottish bodies of accountants for a clause to be incorporated in the Companies Act Amendment Bill which will ensure that every auditor's report on audited balance sheets lodged with the Registrar of Companies under sect. 110 of the 1929 Act shall contain the report of the auditors on the accounts and balance sheets certified by them, which include a profit and loss account issued to the shareholders as required by sect. 134 (1) of the Companies Act, 1929 ?

Mr. RUNCIMAN : Any suggestion on the lines indicated by my hon. Friend will be noted for investigation when the question of amending the Companies Act is under consideration.

Changes and Removals.

Messrs. Baddiel, Sleeman & Co., intimate that they have removed their offices to Park Buildings, Portland Street, Swansea.

The partnership hitherto existing between Mr. S. Barnes Bryant and Mr. A. E. Haynes, practising under the style of Barnes Bryant, Haynes & Co., Incorporated Accountants, has been dissolved by mutual consent. Mr. Barnes Bryant, will continue to practise at 41, St. James's Place, London, S.W.1, and Mr. A. E. Haynes, will practise at 108A, Cannon Street, London, E.C.4, under the style of Haynes & Co.

Messrs. Crowe, Storr & Co., Incorporated Accountants, announce that they have amalgamated their practice with that of Mr. T. Geoffrey N. Hollings, Incorporated Accountant. The new firm will practise under the style of Hollings, Crowe, Storr & Co., at 39, Park Square, Leeds, and Central Chambers, Manor Square, Otley.

Mr. S. R. Fenn, Incorporated Accountant, has been admitted a member of the firm of A. Jones & Co., 23, Station Road, Willesden, London, N.W.10. The practice will in future be carried on under the style of Jones, Fenn & Co.

Messrs. Fredk. & C. S. Holliday, Incorporated Accountants, announce a change of address to Prudential Buildings, Park Row, Leeds.

Messrs. Lawrence, Hann & Best, Incorporated Accountants, have removed their offices to Finsbury Pavement House, 120, Moorgate, London, E.C.2.

Mr. Ernest C. Morgan announces that he has taken into partnership his son, Mr. A. Harold Morgan. The practice will be continued under the firm name of E. C. Morgan & Son, Incorporated Accountants, at Crown Chambers, Newtown (Mont.).

Messrs. R. H. Munro & Co., Incorporated Accountants, have removed their offices to 2, Thames House, Queen Street Place, London, E.C.4.

The partnership hitherto existing between Mr. George Watkinson Roberts, Incorporated Accountant, and Mr. William Rosser-James, Chartered Accountant, under the style of Watkinson Roberts & Co., has been dissolved by mutual consent. The practice formerly carried on by the partnership will in future be carried on under the same name by Mr. G. Watkinson Roberts, at 10, Essex Street, Strand, London, W.C.2.

Messrs. G. H. C. Stanley & Co., Chartered Accountants, have removed their Birmingham offices to York House, Great Charles Street, Birmingham.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to the Membership of the Society have been completed since our last issue :—

ASSOCIATES.

ALLEN, EDGAR OSWALD, Clerk to T. & J. L. Tunstall and Co., Bewsey Chambers, Warrington.

BOND, ARTHUR WILLIAM, 141, Station Road, Beeston, Nottingham, Practising Accountant.

BOTTOMLEY, HARRY, Clerk to William M. Gray, Son and Co., Palmerston Buildings, 5, Manor Row, Bradford.

CHESWORTH, WALTER HENRY, Clerk to Beever and Struthers, 6, Princess Street, Manchester.

ELVERSON, ERNEST ARTHUR, Clerk to Carter & Pickard, Standard Buildings, Leeds.

FLAY, JOHN CHARLES, Clerk to E. H. B. Butler, Midland Bank Chambers, Broad Street, Worcester.

FREEMAN, ERIC WILFRED PALLANT, Clerk to Tunbridge and Lacey, 64, London Road North, Lowestoft.

HILL, EDGAR GEORGE, Clerk to W. M. Bayliss, Sons and Co., 16, Broad Street, Oxford.

KANEEN, WILLIAM DOUGLAS, Clerk to W. H. Walker and Co., 50, Athol Street, Douglas (I.O.M.).

MILES, COLIN VIVIAN, Accountant, Groves, Groves, and Williamson, 26, Charles Street, Cardiff (formerly Clerk to Kimpton, Holland & Co., Newport, Mon.).

MORREY, ALICK, Clerk to Bourner, Bullock & Co., 17, Albion Street, Hanley, Stoke-on-Trent.

MOSS, THOMAS ARTHUR, Borough Treasurer's Department, Town Hall, Preston.

POTE, CYRIL, Clerk to Watson & Tebbet, 10, Peacock Lane, Leicester.

SALISBURY, GARETH COCKSHOTT, Clerk to Cassleton Elliott & Co., 4-6, Throgmorton Avenue, London, E.C.2.

SIDDLE, EDWARD ROWLAND, Clerk to Albert Goodman, Sons, Pollard & Braybrooks, 3, Hammet Street, Taunton.

STOTT, JOHN RANDALL, Clerk to Geo. A. Marriott, Roger son & Co., York House, 12, York Street, Manchester.

TEED, DENIS THEODORE, formerly Clerk to Darr, Rickard and Co., 25, Finsbury Square, London, E.C.2.

TOVELL, WALTER GEORGE, Clerk to D. L. Sellers, 27, Portland Street, Southampton.

Fraud and Evasion in Relation to Taxation.

A Paper read before the Liverpool Branch of the Institute of Bankers by

Mr. C. HEWETSON NELSON,
Past President of the Society of Incorporated Accountants and Auditors.

The chair was occupied by Mr. S. R. Hanmer.

Mr. Hewetson Nelson said: In approaching the subject of Evasion of Taxation we cannot perhaps begin at a more appropriate point than that of the Royal Commission on the Income Tax of 1920. That Commission, *inter alia*, stated that :—

"The citizen who is deficient in public spirit has always aimed at paying less than his fair share of the nation's expenses, and it is safe to assume that he will always continue to do so. This may be said of every tax, but it is especially true of the income tax, because there are many cases where a knowledge of the amount of the taxpayer's profit is confined to himself or shared only by his confidential employees or his professional advisers. Although a taxpayer is obliged by law to make a return of his income, in many cases that return is, in the nature of things, capable of only a partial or imperfect check, and when this is known or suspected by the taxpayer he is tempted to speculate on the chance of escaping detection if the return is inaccurate. He may not always be guilty of fraud; he may be culpably careless; he may decide every doubtful point in his own favour by deliberately refraining from inquiry; he may cultivate a profitable ignorance or a negligence that is not free from guile. His conduct may, in short, occupy any position in the scale, from something less than complete honesty down to absolute fraud. The one common feature in all such cases is that the Revenue suffers, which is only another way of saying that the evader contrives to make his fellow-citizens pay something that ought to have come out of his own pocket."

Revenue Losses.

The Commission was assured both by official witnesses and others that there was a very considerable leakage of duty due from the less scrupulous minority of taxpayers. One witness calculated the amount of assessable income that escaped assessment in 1913 at £17,000,000 (the duty on which at 6s. in the £ would exceed £5,000,000). Another witness, speaking on behalf of the Association of British Chambers of Commerce, thought that the annual loss might amount to £8,000,000 of duty. The Inland Revenue thought that something between £5,000,000 and £10,000,000 more tax might be recovered by the aid of increased staff, improved administration, and more stringent penalties. Sir Josiah Stamp, in "British Incomes and Property," p. 324, refers to the figure of £17,000,000.

The evidence as a whole fully convinced the Commission that there was a serious loss of revenue caused by fraud, negligence and ignorance.

The Select Committees of 1851-2 and 1861 took evidence on the subject. The Departmental Committee of 1905, which was specifically directed to inquire into it, reported that "in the sphere in which self-assessment is still requisite, there is a substantial amount of fraud and evasion."

The Royal Commission recommended :—

(*a*) That, if required, the taxpayer should be obliged to state whether or not he keeps books, whether they are audited, and if audited, by whom;

(*b*) That the Schedule D return form should require a copy of the taxpayer's own calculations showing how the amount returned has been arrived at;

(*c*) That accountants furnishing accounts for clients for income tax purposes should on the request of the Inspector give a certificate showing the extent and nature of their audit;

(*d*) That the certificate generally in use in regard to stock valuations should be made statutory and apply to all commercial businesses, *i.e.*, to all businesses other than that of agriculture, and that the basis on which a trader should value his stock for income tax purposes should be defined;

(*e*) That a firm's return should be signed by the precedent acting partner resident in the United Kingdom and by one other partner so resident, and that a company's return should be signed by its chief executive officer as well as by the secretary or other person liable by statute to make the return.

In later recommendations were the following :—

(*a*) That banks should be required, on receiving a request from the Inspector of Taxes, to say whether or not any particular person has an account with them;

(*b*) That all departmental and public information as to contracts should on application be given to the assessing authorities;

(*c*) That the assessing authorities should have power to examine books and documents in the hands of paying agents in connection with the assessment of foreign dividends and remittances.

Bank Interest.

"We understand," say the Commissioners, "that there is considerable evasion in regard to bank interest credited to deposit and other accounts, owing to the fact that the interest is not in law annual interest, and is therefore not subject to deduction of tax. We suggest that the Revenue Authorities, in conjunction with the banks, should agree upon the best method of stopping this loss of revenue, either by production of lists, by deduction of tax, or otherwise."

It is a relief to know that the Commission was unable to support the proposal which had been made, that the banks should be obliged to allow the

inspection of the accounts of their customers, but it did recommend that this right of inspection should be granted under an order of a Judge of the High Court or County Court, but only after the taxpayer had refused or neglected to produce his bank pass book when required by the assessing authorities.

On the question of the inspection of books, they quote, with obvious approval, a passage from a letter written by the Secretary of the New Zealand Treasury :—

> "I do not think that in the Old Country there is any provision for inspecting the books of taxpayers such as there is in New Zealand. Before such a provision was introduced into New Zealand the amount realised from income tax was, comparatively speaking, insignificant. After the introduction of a proper system of inspection the revenue increased enormously.
>
> "It was feared when the system of inspection was first introduced in New Zealand that complaints would be made regarding its inquisitorial nature. Experience, however, proved that the effect was exactly in the opposite direction. The visits of the income tax inspector came to be welcomed, especially by those persons who failed to understand thoroughly the intricate provisions of the law regarding taxation."

We may now pass in review the chief provisions against fraudulent practices.

INCOME TAX ACT, 1918.

132. (1) Where a person who ought to be charged with tax, as directed by this Act, is not duly assessed and charged by reason that he has :—

(*a*) fraudulently changed his place of residence or fraudulently converted, or fraudulently released, assigned, or conveyed any of his property ; or

(*b*) made and delivered any statement or schedule which is false or fraudulent ; or

(*c*) fraudulently converted any of his property, which was chargeable, by altering any security relating thereto or by fraudulently rendering it temporarily unproductive, in order not to be charged for the same or any part thereof ; or

(*d*) been guilty of any falsehood, wilful neglect, fraud, covin, art or contrivance whatsoever ;

such person shall, on proof thereof to the General Commissioners for the division in which he has been charged, or, if he has not been charged, then for any division in which he is chargeable, be assessed and charged treble the amount of the charge which ought to have been made upon him.

Provided that, if any charge has been made, but that charge is less than the charge which ought to have been made, such person shall be assessed and charged, over and above the former charge, treble the amount of the difference between the charge which was made and the charge which ought to have been made, such amount to be added to the assessment.

(2) A person who knowingly and wilfully aids, abets, assists, incites or induces another person to make or deliver a false or fraudulent account, statement, or declaration, of or concerning any profits or gains chargeable, or the yearly rent or value of any lands, tenements, hereditaments, or heritages, or any matters affecting any such rent or value, shall for every such offence forfeit the sum of five hundred pounds.

The following provisions as to penalties are referred to by Dowell, pp. 200-201 :—

Sect. 30 (penalty for false claims of abatement, exemption or relief, &c.—aiding and abetting).

Sect. 34 (fraud or contrivance—relief in respect of certain losses).

Sect. 40 (4) (charities, &c.—false or fraudulent claims for exemption in respect of interest, annuities, or shares of annuities under Schedule C).

Sect. 107 (neglecting to deliver true and correct statements, &c.).

Sect. 127 (surcharges—false declaration).

Sect. 227 (false statements to obtain allowances, repayments, &c., or in returns—liable to imprisonment).

See also Finance (1909-10) Act, 1910, sect. 94 (false statement or representation for the purpose of obtaining allowances, &c.).

Schedule A, No. IV, rules 14, 15 (false account—neglecting to produce leases, &c.).

Schedule A, No. V, rule 10 (losses, floods, &c.—false claim for abatement).

Finance Act, 1922, sect. 22 (particulars for super tax), 1st schedule, 11 (super tax on undistributed income of certain companies).

Finance Act, 1923, sect. 23 (amendments as to time and amount, &c.).

Finance Act, 1924, sect. 33 (dividend warrants—income tax explanation).

Perjury Act, 1911, sect. 5 (false statements in accounts, returns, documents, &c.—misdemeanour). Proceedings may also be taken under the Common Law for fraud or conspiracy.

The above references will enable any student of the subject readily to acquaint himself with the powers of the Authorities in respect of fraudulent evasion, and evasion to which so strong an adjective is perhaps not appropriate.

Sect. 23 of the Income Tax Act of 1923 is important, as it appears to establish that no penalties under the Income Tax Acts can be recovered prior to the year 1920-21. The section reads as follows :—

(1) Proceedings for the recovery of any fine or penalty incurred under the Income Tax Acts in connection with or in relation to the income tax (including super tax) charged for the year 1920-21 or any subsequent year of assessment may be commenced at any time within six years next after the date on which it was incurred.

(2) The amount of the penalty which may be recovered in proceedings in any Court under section one hundred and seven of the Income Tax Act, 1918 (which imposes penalties for

neglect to deliver lists, declarations and statements), shall be a sum of twenty pounds and treble the amount of the tax with which the offender ought to be charged under that Act instead of a sum of fifty pounds.

(3) The amount of the penalty recoverable under sub-section (2) of section one hundred and thirty-two of the Income Tax Act, 1918 (which imposes a penalty on a person who aids, abets, assists, incites or induces another person to make or deliver a false or fraudulent account, statement, or declaration), or under sub-section (2) of section thirty of that Act (which imposes a penalty on a person who aids or abets any person in committing an offence under that section), shall be increased to five hundred pounds.

Of course, proceedings cannot now be commenced prior to the six year period.

Although one hears a considerable amount of criticism in relation to the application of such provisions as I have enumerated, a comparison with other countries makes it abundantly clear that the British taxpayer could go further and fare worse. Both in Germany and in the United States heavy penalties prevail. Tranter, a writer on the subject, has pointed out that non-declaration of loan interest results, in Italy, in the creditor losing his rights against his debtor, while in Rhode Island you must not only make your own income return, but you must also supply an estimate of the figure at which ten of your neighbours should, in your opinion, be assessed.

There are countries where publicity is given to income tax assessments, so that it is as easy to obtain a person's income tax assessment, as it is in this country to obtain the assessment (for local government purposes) of the house in which he resides.

Our own Income Tax Commissioners in their ninth Report express the view that such publicity would go far towards enforcing honesty in taxpayers.

I have already referred to the statement alleging that the taxpayer in New Zealand welcomes the visit of the Inspector of Taxes when he visits his office to inspect his books. I am not aware that the same can be said when the American Inspector attends for a similar purpose, and I know that it would not be accurate to make the statement in regard to Spain, where, apart from taxation as we know it, every page of every book of account, as well as every page of a company's minute book, must bear an *ad valorem* stamp.

I have always thought that there was a good deal to be said in favour of charging interest on arrears of taxes, a practice which is, I believe, already in force in the United States, South Africa, Canada, Australia, France, Germany and Belgium, and other countries. The interest varies in the different countries between 6 per cent. and 20 per cent. As one authority has sapiently remarked: "The interest must clearly exceed the interest which could be obtained by placing the amount of the tax on deposit at a bank. . . ."

CLASSES OF EVADERS AND TYPES OF EVASION.

Sir Josiah Stamp has expressed the opinion that most evasion occurred in manufacturing and merchanting businesses where the annual profits were in the neighbourhood of £1,000 to £3,000. My own experience would lead me to a widening of the class and also to an extension of the higher figure.

In approaching the question of kinds of evasion, it is usual to divide evasion into two classes: (*a*) legal avoidance, and (*b*) fraudulent evasion. Under the first class you have illustrations in the operation of the Excess Profits Duty, where many companies and firms had to regret the success which had attended them in the three pre-war years in securing low income tax assessments. When these years became the standard years for E.P.D. and it became extremely desirable to obtain a high standard, it was not unknown for figures to be put forward for the standard period considerably above those accepted (at the time) for income tax purposes. These subsequent attempts to establish higher figures for the standard period suggest an element of sharp practice which might well take them out of the category in which I have included them. An almost better illustration of attempts at legal evasion was that of the conversion of businesses, and private estates, into limited companies, in order to escape super tax (surtax). As I dealt with this pretty fully in my lecture before the Cotton Trade Institute I need not here refer to it in detail, beyond remarking that the tendency of the shareholders, especially when the control is in few hands, to withdraw money by way of loan instead of by way of dividend (subject to deduction of tax) is still prevalent. The Act of 1922 marked the first attempt to stop this leakage, but as it applied only to companies registered since April 5th, 1914, one of its unlooked for results was to create a demand for moribund companies in order to escape assessment. The Act of 1927 removed the limitation, and applied the provisions to all companies under the control of not more than five persons, except, of course, public and subsidiary companies.

You also have the cases of the removal of persons to the Channel Isles and elsewhere, in order to escape the British income tax, and the placing of companies into liquidation, with the object of converting profits into capital.

The loss to the Revenue through the forgetfulness to include bank interest in returns led the Royal Commission to recommend the inclusion in the form of return of a named section for such interest, which has now been adopted.

You will all be aware that companies and other employers are required to make a return, on form 46, of the emoluments of those of its employees subject to tax. I mention this in order to state that the loss by understatement of assessments under this class (Schedule E) is estimated at less than 1 per cent. of the tax brought into charge under the Schedule. This is probably due to the double check which the system affords.

It is somewhat amusing to know that after the allowance for children had been introduced it was

for a time discontinued, owing to the amazing official increase of large families.

Evasion by buying securities ex-dividend and selling them cum-dividend, is fully dealt with in Tranter's book. Owing to deduction of tax at the source, income tax is not materially affected, but where a bank is involved, surtax may be lost. Sect. 33 of the Finance Act, 1927, is germane. The distinction between legal and fraudulent evasion has been the subject of judicial dicta, and the following quotations may help to clarify the position.

"It is open to persons to evade income tax if they can do so legally." *Hawker* v. *Compton*, 8 T.C., 313.

"Nobody is under any obligation so to lay out his estate or the estate of his family as to make it subject to avoidable taxation." *Linton* v. *Chapman*, 13 T.C., 454.

"It is trite law that His Majesty's subjects are free, if they can, to make their own arrangements so that their cases will fall outside the scope of the taxing Acts." *Levene* v. *Commissioners of Inland Revenue*, 13 T.C., 501.

FRAUDULENT EVASION.

In approaching this aspect of our subject attention may be directed at the outset to what is known as the "Joynson-Hicks Circular." The circular arose out of a question asked in the House on July 19th, 1923. Appended is the question and the reply by the then Financial Secretary to the Treasury.

Mr. A. M. Samuel asked the Financial Secretary to the Treasury whether it had been brought to his notice that there are taxpayers who have been guilty of income tax fraud, and who would be glad of an opportunity of making a full disclosure and a suitable pecuniary settlement but are deterred from doing so by the fear of criminal proceedings; and whether he proposed to do anything to meet such cases?

Sir W. Joynson-Hicks: The question of fraud and evasion in connection with direct taxation is, of course, a matter of great importance to the Exchequer, but it is not desired that fraudulent taxpayers should be deterred by the fear of criminal proceedings from making spontaneous disclosure of their misdeeds and appropriate pecuniary restitution. I will circulate with the Official Report a statement of the practice which is followed by the Board of Inland Revenue in the matter.

The following is the statement referred to:—

"Where the taxpayer takes the initiative and voluntarily discloses the fact of his past frauds and their full extent and is also prepared to facilitate investigation and to furnish full evidence (including not only the business books and records, but also private bank books), as may be required on behalf of the Board as to the amount of the correct liability, the Board will not institute criminal proceedings, but will accept a pecuniary settlement.

"Cases not infrequently arise in which the disclosure, though in a sense voluntary, is not made on the initiative of the taxpayer.

"For example, the taxpayer may have been requested to furnish accounts, or further particulars in connection with accounts already rendered, or the production of books may have been suggested. If, in such a case, the taxpayer forthwith comes forward with a full and frank disclosure of past frauds, this would be accepted by the Board as equivalent to a voluntary disclosure to the extent that the Board would not institute criminal proceedings, but would accept a pecuniary settlement. The condition indicated above as to a full investigation and the production of evidence would apply, of course, equally to these cases.

"The pecuniary settlement which the Board will be prepared to accept will be determined by reference to the circumstances of the individual case, and will in no case exceed the full amount of the unassessed duties for the whole period (whether additional assessments are or are not competent), plus the pecuniary penalties for which proceedings might be taken. Due regard will be had to the taxpayer's means, not only in determining the amount of the sum to be accepted in settlement, but also in fixing the date or dates for payment.

"Normally the Board will feel justified in accepting in cases where the disclosure is purely voluntary, *i.e.*, made on the initiative of the taxpayer, a smaller sum by way of penalty than would be required if the disclosure had not been spontaneous but had followed upon an inquiry by the Inspector.

"In some cases of voluntary or quasi-voluntary disclosure it has been found that the taxpayer has in past years furnished false and fraudulent particulars in reply to inquiries which have been made by the Inspector and have been treated as closed. In such cases the Board do not refuse to accept a pecuniary settlement in the event of a voluntary or quasi-voluntary disclosure following upon fresh inquiry. The previous fraudulent replies would, however, be regarded as a relevent circumstance in determining the amount to be paid by way of penalty."

In cases where the taxpayer takes the initiative and makes a full disclosure I have experienced no great difficulty in effecting a satisfactory settlement, and I am glad to bear my testimony to the reasonable manner in which one is met by the officials of the Board of Inland Revenue. In fact, permission to discharge the arrears and penalties by instalments, in cases where the payment of a large sum down would cripple the business, is generally granted. This procedure involves the signing of an undertaking. The legality of this agreement has been challenged in the Courts.

The first point taken by the defendant was that, since the penalties to which he was liable had not been formally assessed before the General Commissioners, the Commissioners of Inland Revenue had no power to compound and take a promise of payment in respect of those penalties. Mr. Justice Rowlatt, in giving judgment, said:—

"It is said that the Inspector and the Commissioners of Inland Revenue have no business to

make a bargain with a man whom they have not proceeded against for penalties to pay something in lieu of them to protect himself from being proceeded against. I need not go into what would be the position if there were no express power, because I think there is express power. Sect. 222 of the Income Tax Act, 1918, says: 'The Commissioners of Inland Revenue may, in their discretion, mitigate any fine or penalty, or stay or compound any proceedings for recovery thereof, and may also, after judgment, further mitigate or entirely remit the fine or penalty.' Now it seems to me that says quite clearly that they may mitigate a fine or penalty before doing anything, stay or compound the proceedings when the proceedings have been commenced, or after judgment, further mitigate or entirely remit the penalty. It seems to me the words apply to all three stages. The only argument against it is that there is not any fine or penalty until it has been imposed by the Commissioners, because it has to be assessed by the Commissioners. I think that it is a very thin argument upon merely literal considerations.

"It is quite clear, I think, that the section means that a fine or penalty which the Commissioners honestly think the facts may support may be compounded by them without taking any proceedings."

The second contention of the defendant was that he had been taken advantage of when signing the agreement. Mr. Justice Rowlatt dealt with this in the following words:—

"He had his adviser there, and the document he signed, and signed after taking it away, states perfectly clearly on the face of it . . . that he admits that he has incurred penalties and that in consideration of not being proceeded against he undertakes to make these payments. Nothing could be clearer, nothing could be more straightforward or above board, addressed to a gentleman of business experience, of full age, advised by a competent accountant, and capable of obtaining any other advice which he thought fit to obtain. . . . The Crown are entitled to judgment for the balance of these sums which have not been paid. . . ."

In cases such as we are now considering you sometimes have:—

(1) Fraud in the books:
   (*a*) Duplicate sets of books.
   (*b*) Triplicate sets of books.

(2) Fraud in the accounts.

The more usual types of fraud are found in:

(*a*) Sales omitted.
(*b*) Fictitious purchases.
(*c*) Omitted credits, *e.g.*, bad debts recovered.
(*d*) Concealed remuneration of proprietors.
(*e*) Capital expenditure debited to purchases.
(*f*) Secret reserves included in creditors.

In order to cover the fraud it sometimes happens that condensed accounts are furnished to the Inspector, the auditor's accounts being suppressed.

Where capital expenditure is involved fraud has occurred when Plant and Machinery Account has been debited with fictitious sums on which the allowance for Wear and Tear (Depreciation) has been obtained on non-existing plant, the Revenue being thus defrauded of tax.

From the point of view of the banker, one somewhat rare type of fraud may be illustrated in the following manner:—

"A," in making up the cheques for the day to be paid into his bank account, finds that they total £5,561. He then draws a cheque on his own account in favour of "B. & Co." for £5,000. Having duly endorsed this cheque in the name of "B. & Co." (with whom he does business) he adds it to the cheques being lodged, which now, of course, total £10,561, and this sum appears to his credit in the books of the bank, while, at the same time, there appears to his debit "B. & Co. £5,000."

Assuming "A" to be a single trader, his ledger entries will consist of a debit to the bank (cash paid in) £10,561, a credit to the bank of £5,000 (cash found for B. & Co.), a debit to Purchases £5,000 (paid B. & Co.), and a corresponding credit to, say, his own capital account.

The transaction involves (*a*) the forgery of "B. & Co.'s" endorsement to the cheque; (*b*) false entries in the books; (*c*) defrauding the Revenue of income tax on £5,000. Having started on the downward track he has to go further, for he has to produce a voucher for his auditors. This he achieves by printing a bill-head similar to those used by "B. & Co.," making out an invoice on the same, and appending to it a receipt in the name of "B. & Co." (involving a second forgery of that firm's name). The transaction could, of course, have been carried out by the simple expedient of debiting purchases and crediting capital account without any utilisation of the bank account, but it would have lost the sense of reality which clothed it when operated through the bank.

Those well known lines about the mills that grind slowly but "exceeding small," with their reference to "patience" and "exactness," are not without relevance in reflecting upon an inquiry conducted by the Inland Revenue. Every avenue is explored, every stone turned over, and it is only fair to say that, as a general rule, no one is better pleased than the inspecting official when a clean bill of health can be declared. It may be that the investigation covers one year, ten years, or more, absorbing months and even years of time, including laborious days and sleepless hours, but ultimately reaching an unchallengeable conclusion. If the investigator suffers mental anxiety, what must be the state of mind of him who has sought to rob his fellow taxpayers (for it must not be forgotten that every pound he succeeds in escaping must be made good by his fellow citizens) when he beholds his cleverest schemes of evasion unravelled. Years may have elapsed between the commission of the crime and its discovery, so that all thought of detection has long since lulled him into a sense of security, but when the great awakening

comes, no pen could adequately picture the abject misery of the delinquent, a misery much of which could have been avoided if in the early days of the investigation he had voluntarily "disclosed the facts of his past fraud."

Whatever may be the modern provisions to "make the punishment fit the crime," they are humane compared with those of Ancient Egypt, where a person failing to make a return of his means was liable to be executed. (It is only fair to myself to say that this paragraph was in print prior to the issue of *Punch* of 27th ultimo.)

Let us, however, draw what consolation we can from the fact that an American investigator is stated to have discovered incorrect statements in the tax returns of George Washington.

For the benefit of students preparing for the examinations of the Institute of Bankers, who may elect to take sub-sect. II of sect. B of the accountancy section of the examinations, which includes income tax and surtax, I enumerate the authors I have consulted in the course of the preparation of this paper:—

Report of the Royal Commission on the Income Tax.

Stamp—"British Incomes and Property" (P. S. King).

Stamp—"Fundamental Principles of Taxation" (Macmillan).

Dowell—"Income Tax Laws" (Butterworth).

Tranter—"Evasion in Taxation" (Routledge).

Staples—"Back Duty" (Gee).

Needham—"Income Tax Evasion."

I have had the opportunity of perusing the syllabus of the qualifying examinations of your Institute, which, if I may be permitted to say so, seems to me to be most excellently designed to produce all the attributes to be looked for in the "compleat" banker. I would, however, as one of the Senior Examiners in accountancy of my own Society, suggest that, having included Income Tax as one of its subjects, the Council of the Institute should include in its books recommended to the examinee at least one volume on that subject.

Mr. Justice Rowlatt, in hearing his last Revenue case, criticised the wording of the following paragraph of sect. 21 (6) of the Finance Act, 1922:—

A company shall be deemed to be under the control of any persons where the majority of the voting power or shares is in the hands of those persons or relatives or nominees of those persons, or where the control is by any other means whatever in the hands of those persons.

He said, "I cannot leave this clause without pointing out that it calls loudly for redrafting in the interests of precision. It ought not to be allowed to remain in this unscholarly and bewildering form."

Incorporated Accountants' South Wales and Monmouthshire District Society.

ANNUAL DINNER.

The annual dinner of the South Wales and Monmouthshire District Society was held at the Park Hotel, Cardiff, on March 10th. Mr. JOHN ALLCOCK, O.B.E., City Treasurer of Cardiff, and President of the District Society, occupied the chair. A company of 200 included the Lord Mayor of Cardiff (Ald. C. W. Melhuish, J.P.) and the Lady Mayoress (Mrs. Oswald Coleman), the Mayor of Newport (Coun. Griffith J. Jones, J.P.), the Mayor of Merthyr (Coun. J. E. Jones, J.P.), Mr. O. Temple Morris, M.P., Mr. Thomas Keens (Past President of the Parent Society), Ald. Sir Illtyd Thomas, J.P. (Chairman, Cardiff Development Committee), Sir James German, Mr. R. Wilson Bartlett, J.P., F.S.A.A., Sir William H. Seager, J.P., Mr. T. C. Warren Evans (President, South Wales and Monmouthshire Chartered Institute of Secretaries), Mr. J. E. Emlyn Jones (Vice-President, Cardiff Chamber of Commerce), Judge L. C. Thomas, Col. John Evans, J.P. (High Sheriff of Monmouthshire), Mr. T. Bert Price (President, Newport Chamber of Commerce), Mr. Joseph Turner (President, Manchester and District Society), Mr. W. J. Pallot (Past President, South Wales and Monmouthshire District Society), Mr. Norman E. Lamb (Vice-President, South Wales and Monmouthshire District Society), Mr. F. J. Alban, C.B.E., Sir Thos. G. Jones, Mr. Percy H. Walker (Hon. Secretary, South Wales and Monmouthshire District Society), Mr. A. A. Garrett, M.A., B.Sc. (Secretary, Society of Incorporated Accountants), and Mr. Ernest E. Edwards, B.A., LL.B. (Parliamentary Secretary, Society of Incorporated Accountants).

Mr. O. TEMPLE MORRIS, M.P., submitted the toast of "The Society of Incorporated Accountants and Auditors." Mr. Morris said that prior to being called to the Bar he belonged to the more lucrative branch of his profession, and when he practised as a solicitor he had an opportunity of seeing a great deal of the valuable work that was being done by members of the Society. Since then it had been his good fortune to be selected as one of the Members of Parliament for that city, and he wanted to assure them that if they had any difficulties as a Society that they wanted removed in the future, he would do all he could to help them. Touching on the importance of the work of accountants, Mr. Morris remarked that one of the greatest compliments that could be paid to any man was to repose confidence in him. We lived in a world of finance, and since he had been in Parliament he realised more than ever that the confidence placed in the great profession of accountancy was closely interwoven in the affairs and well-being of the nation. In proposing this toast he wanted to lay emphasis on the title of their Society. It was a Society of Incorporated Accountants, and should not be confused with other societies. It was incorporated in 1885, and in December last the membership was 5,664—a growth they might well be proud of. The Society was world-wide in its operations, and its diploma was the hall-mark of efficiency and was recognised all the world over. They had no branch more energetic or composed of finer or better men than the South Wales branch. (Applause.) The speaker continued that he had ascertained that two of the objects of their Society were to elevate the status of the profession, and to procure and promote the advancement of the interests of the profession. These aims

were, he believed, being splendidly accomplished by interchange of ideas which broadened their vision; by examinations and by discipline. Almost everyone had a secret hatred for examinations, but a great regard for them when they were over. He received many letters from people who protested against examinations, but he saw no alternative to them, or any reason why they should be abolished. By their examinations they not only gave themselves the hall-mark of efficiency, but they protected the British public and gave the community confidence in them. There was an open gateway, but the entry through that gateway should be by examination. The high valuation which the British public placed on the Society was perhaps sometimes not fully appreciated. He had been in the House of Commons sufficiently long to see the value of accountancy in national and international affairs. Members of their Parent Society, such as Mr. Henry Morgan and Sir James Martin, had been called in to advise on Company Law and Income Tax. They had in their ranks also such distinguished men as Sir Josiah Stamp and Sir Malcolm Ramsay, who, he understood, were Honorary Members of the Society. Moreover, municipal authorities—the democratic representatives of the people—insisted that their Treasurers should be Incorporated Accountants. In Cardiff they had a brilliant example, and this branch was honoured in having as its President their valued City Treasurer. (Applause.) He was sure they would agree with him that one of the gravest dangers in the commercial world to-day was the amateur auditor; the amateur rushed in where the qualified man trod with diffidence. Take working men's clubs as an instance. They very often appointed two men as auditors, thinking that they were studying economy. The auditors were perhaps honest, conscientious working men, but they did not know their jobs. Trouble arose and the books had to be produced, and then the only people who gained were the members of his own profession! For the sake of a few guineas the club was ruined. Mr. Morris coupled with the toast the name of Mr. Thomas Keens, Past President of the Society, and said he hoped they would all endeavour to emulate his service so that when the final balance sheet of this great Society came up they would all be "assets," and there would be no "liabilities." (Applause.)

Mr. THOMAS KEENS, responding to the toast, acknowledged the many graceful tributes paid to the Society by Mr. Temple Morris. He congratulated the South Wales and Monmouthshire Society upon having two of its members—their President (Mr. John Allcock) and Mr. Alban—in the last Honours List. In complimenting the branch upon the energy it infused into the work of the Society, and on the service it had rendered to other districts, Mr. Keens paid tribute to the Hon. Secretary, Mr. Percy H. Walker, whose work was fully recognised and appreciated by the Council. The membership of the Society continued to increase, and it represented quality as well as quantity. They were told—and unfortunately it was true—that there was overcrowding in the profession. The problem had been the subject of many letters in the professional Press. It had been suggested that they should limit the number of articled clerks, and that they should close the open door of merit. He wanted to stress that the Society of Incorporated Accountants should not be a party to closing the door of merit to those boys whose parents were not able to afford premiums. He ventured to suggest that in the future the services of members of their profession would be more and more in demand, and with the return of prosperity they would find no difficulty in absorbing the numbers in their ranks into early remunerative employment. After touching on his experiences during his recent visit to America, Mr. Keens said that when he returned he found that tremendous issues affecting their Society had been raised in the *Royal Mail* case. A Committee had been appointed to consider the issues which had arisen. He could not anticipate the findings of that Committee, but before long their report would be available. The speeches of their President had attracted considerable attention, and he believed that he would desire it to be known that the statements made by him expressed his own personal and individual opinion. Dealing with national affairs, Mr. Keens said that it was possible that night to strike a note of optimism. The year 1931 would long be remembered because they saw in that year the third great national mobilisation of modern history. There was the mobilisation of 1914 in preparation for the War; that of 1926 against the general strike, and 1931 saw the mobilisation of the financial resources of this country. One of their most distinguished members—Sir Josiah Stamp—had recently said, "I hope that the world will begin to recover its sanity in economic affairs in 1932, and that the conferences on Disarmament and Finance may both be definite steps forward. The day for make-believe in international politics and a refusal to face facts is over." A little more than six months ago, foreigners were busily withdrawing money deposited with British banks and invested in British securities to such an extent as to force us off the gold standard. The general opinion abroad at that time was that British currency and British securities were not safe investments. To-day there was a complete reversal of the situation, and world opinion of the safety of London as a depository for funds had so changed that foreigners were buying sterling against the sale of foreign currencies in order to place money in London. Whilst a certain amount of satisfaction was to be derived from these healthy symptoms of the strength of British credit, it should not be forgotten that we were dependent to such an extent upon foreign trade that any violent fluctuation in French or American currency might well be a serious deterrent to a return to normal international trading. Britain should take all possible steps, both through the Government and the Bank of England, to achieve by international action, stability of international exchange. The resilience of British credit was all the more remarkable when they considered the colossal burden of debt, both public and private, which had been multiplied by the fall in price level. Happily the sterile conditions were passing and there were at present indications of returning confidence, and it was almost a certainty that we would now be able to produce a balanced Budget and that we would soon enjoy the advantages of cheaper money. We had by an enormous effort confounded the prophets and our foreign critics alike. (Cheers.)

Mr. NORMAN E. LAMB, Newport, Vice-President of the District Society, proposed the toast of "Our Civic Governors," and made particular reference to the services of the Lord Mayor of Cardiff to the city.

The LORD MAYOR, in responding, congratulated the Society upon its selection of Mr. John Allcock, their respected City Treasurer, as this year's President. During his public life he had had many years' experience of Mr. Allcock's thoroughness and efficiency, and he was a valued servant of the Cardiff City Council.

The MAYOR OF NEWPORT also responded to the toast.

"Trade, Commerce and Industry" was proposed by Mr. W. J. PALLOT, Past President, District Society, who touched upon the need for new industries in the district, which, if they could be obtained, would greatly improve the position so far as members of their Society were concerned.

Mr. J. E. EMLYN-JONES, Vice-President of the Cardiff Chamber of Commerce, responded, and expressed the hope that Britain would never return to the gold standard, and that they would endeavour to make the pound, unsupported by gold, the emblem of currency throughout the whole world.

Tributes to the visitors present were paid by the President, and brief responses were made by Judge L. C. THOMAS and Mr. T. C. WARREN EVANS, President of the South Wales and Monmouthshire District Society of Chartered Secretaries.

District Society of Incorporated Accountants.

SOUTH WALES AND MONMOUTHSHIRE.

(CARDIFF AND DISTRICT STUDENTS' SECTION.)

At the meeting held at Cardiff on February 5th, Mr. D. Bernard Morgan (Director of Messrs. David Morgan, Limited, Cardiff) delivered a lecture on "The Retail System of Stock Control as applied to Department Stores." After reminding the members of the points to be looked for in the balance sheet of a company, and explaining briefly the old methods employed by his firm in dealing with the control of stock in the various departments, Mr. Morgan described in detail the present system of stock control. An animated discussion followed, and Mr. Morgan was accorded a hearty vote of thanks.

In connection with the prize essay scheme, the Chairman (Mr. K. S. Williams) announced that the judges (Mr. E. Ewart Pearce, Mr. Ivor Davies, Mr. K. V. Stephens, Mr. K. S. Williams, and Mr. J. Alun Evans) had awarded the following prizes for the session 1931-32:—(*a*) For the best paper: 1st prize, Mr. R. R. Davies, Paper on "The Economic Aspect of International Relationships"; 2nd prize, Mr. Noel Cliffe, Paper on "Fraud and its Prevention." (*b*) Prize for the best contribution to the discussions: Mr. C. J. Crang.

There was a large attendance of members on March 17th, when a mock company meeting was held. The meeting took the form of (i) the statutory meeting of Harry Jones Limited, followed by (ii) the first annual general meeting, at which the first annual accounts were considered and an offer to purchase the assets of the company put forward. Mr. K. V. Stephens, A.S.A.A. (Chairman of the Students' Section), occupied the chair. The officers of the company included Mr. K. V. Stephens, A.S.A.A. (chairman of directors), Mr. E. Ewart Pearce, A.S.A.A., Mr. Ivor Davies, A.S.A.A., Mr. K. S. Williams and Mr. J. T. Jones, directors; Mr. V. F. Alban, A.S.A.A., auditor; and Mr. J. Alun Evans, secretary. Consideration of the report and annual accounts, as well as the offer to purchase, resulted in the directors and officers of the company being stormed by the shareholders with questions and criticisms for well over two hours, the shareholders being generally most dissatisfied with the financial position as presented to them.

Mr. Roland Burrows, M.A., LL.D., Recorder of Cambridge, and also an examiner in legal subjects to the Society of Incorporated Accountants and Auditors, has been appointed one of His Majesty's Counsel.

Problems of Nationalism and International Trade.

A LECTURE delivered before the Incorporated Accountants' London and District Society by

DR. E. LESLIE BURGIN, M.P.

The chair was occupied by Mr. THOMAS KEENS, F.S.A.A.

The CHAIRMAN, in introducing the Lecturer, said that Dr. Burgin was an international lawyer; he was legal adviser to the Round Table Conference and a member of the present National Government. He was a member of the firm of Denton, Hall and Burgin, solicitors, and late principal and director of legal studies in the Law Society.

Dr. BURGIN said: I want to talk to you about rather a big problem, and it is simply this: When a business becomes too big for its own parish, how is it going to enlarge? When it becomes too big for its own country, what is it going to do in the great world outside? Are you going to start in every country of the world a separate company? Are you going to trade as the mother company? What are the relations between the companies you create, and what are the consequences of creating them? "Nationalism," when I use the word, means the opportunity of voting in favour of something because it belongs to a particular country. "Internationalism," as I understand it, means something wider than any individual country, something which may include all countries.

The dream of every trader of any size is to do business with the world; the dream of a nationalist is to do the maximum amount of trade in the country of his own nationality. What do we do when those two sentiments clash? How far is the problem one which concerns our own country and empire?

The population of the world is approximately 1,800 millions; the population of the United Kingdom is approximately 45 millions. It follows that the home market must necessarily in several respects be infinitely less than the world market.

The population of the British Empire is about 450 millions—one in four of the entire population of the world—of which only a fraction are white people. The Empire market is also, therefore, in several respects, less than the world market. No one, least of all one so experienced as one of our accountants of this port and city, would contend that this country can survive without importing food and raw materials, and to a lesser extent manufactured goods as well.

We are indebted to our merchant adventurers, our seamen, our colonisers; and we must, in these days of the emphasis of the importance of the home market, beware lest the still greater importance of our export supremacy be in any way lost to view. Employment depends largely on volume of trade, and volume is affected both by restriction of imports and by lessening of exports. At first sight, therefore,

any proposals for restriction of trade would seem to be the least likely to affect unemployment for the better.

As with individuals, however, so with countries; there may come times in the financial experience when, however unpleasant the results, it may be urgently necessary, as a price of maintaining financial equilibrium, to reduce the total trade done and to deny themselves, either in whole or only in part, certain forms of commercial transactions. In the opinion of many bankers, most accountants and all economists, the United Kingdom is passing through such a moment of financial stress; therefore restriction of commercial transactions may have to be faced. We are entitled as a country to govern ourselves for our own good and in such manner as we think best. We need not discuss discrimination against other countries, but can, perhaps, usefully consider restriction of imports, and manufacture within our shores of goods hitherto made elsewhere. Such a study invites consideration of the whole question of manufacture in more than one part of the world of the same commodity.

What is the best course to adopt? Is it to centralise—to amalgamate, to choose theoretically the best and ideal centre of manufacture, and then export; or is it better to manufacture to a certain extent and then assemble and complete in other countries; or even is it preferable actually to go through all the operations of manufacture in each country? It will readily be conceded that the ideal circumstances for international trade would be that every mineral should be mined in the country where it happens to lie in the earth's crust, should be treated nearest its source, that every raw material should be grown and cultivated in the soil and under conditions best suited to its advantageous development, that every industry should be carried on where, either by reason of proximity of material or by reason of traditional aptitude of the workers, or the climate, or for some other good reason, either general or local, it can best or most advantageously be established.

It is an undoubted fact that many requirements of daily use are only to be found in certain very limited and in some cases far-flung quarters of the earth. Minerals and metals are lodged in the crust of the earth, in no way similar to the political divisions of the soil above. Some countries have a complete monopoly of certain commodities, others a virtual monopoly. Some crops—for instance, soya beans—persist only in growing to full fruition in such disputed territories as Manchuria. Some metals—for instance, the instrument which permits the electrical treatment of aluminium alloys—are to be found only in Greenland, under the sole and undisputed sovereignty of the friendly country of Denmark. We could never manufacture aluminium by electrolysis without Denmark's permission, and we have to be on our guard in these days lest there are certain requirements which we can only have by international agreement.

Doubtless there is a large field of industry in which a great part of the world's surfaces would be neither specially more nor noticeably less convenient for the carrying on of a large number of industries. Such industries may be classified as being not subject to local conditions, not dependent upon local supplies, not requiring any particular skill or training, and having no otherwise exceptional features.

The measure in which the best possible conditions under which trade or industry can be carried on or preventably interfered with by the outbreak of war, by great calamity, by acts of governments, operations of treaties or tariff walls, is the measure of the task awaiting international thought. At the present time there seems to be a very noticeable growth of nationalism. Ever since the Peace Treaties, in 1919, created a large number of new States, this spirit of nationalism has been on the increase. Years of bad trade, followed by the adverse balance of payments in our own country and the withdrawal from the gold standard, have intensified the growth of the movement in our own land. Efforts of governments, civil servants, public men, are all expressly devoted at present to inviting foreign capital to come to our shores and to set up new industries and new trades within our own boundaries. Pushed to extremes this tendency possesses many special dangers. If the United Kingdom, by its policy of fiscal and commercial control, broadcasts to the trading world the message that, as far as possible, the campaign of "Buy British" is to be followed by a campaign to encourage "Manufacture British," there will be a tendency for industries to be commenced within the United Kingdom for the purpose of giving them British characteristics which are not suited to this country, which displace normal and better sources of supply, and which create a false value in the article attributable to manufacture within a particular area—a factor which, taken by itself, may be quite irrelevant in considering the utility, the commercial value, or the inherent excellence of the article or commodity in question.

It is no doubt attractive to contemplate a rush of foreign applicants to this country to purchase vacant sites, to erect thereon buildings, employ those who are at present without work in the building trade, and, once the building is erected, to contribute to local rates, to take part in national taxation, and then to be an employing unit for the large numbers of workmen and workwomen on the unemployed live register. But whilst such a proposal is no doubt attractive, there seem to be dangers. Other countries following the same lead, requiring similar compliance, compelling British manufacturing firms to set up not merely a separate local organisation but a complete separate manufacturing plant within the tariff walls of each country in which they are doing business, will ultimately tend to split up manufacturing into a number of small units, each possessing its own overhead charges, denied all the advantages of mass or routine production, compelled as far as possible in each country to be independent—in fact, the very reverse process of rationalisation. The new company, which, presumably, will be set up

by the foreign firm within the United Kingdom, will be set up in order to give the foreign firm a British legal personality. That legal personality becomes a subject of the United Kingdom, becomes British, amenable to British taxation and to British law, and removes the foreigner from the protection or control of his own Government and its diplomatic agents. The foreigner—take, for example, a French industrialist, perhaps a creator and originator of a particular commodity, famed throughout the world for the manufacture, creation and design of that commodity—comes over to the United Kingdom under the influence of nationalism, incorporates within the United Kingdom an English limited liability company, and becomes within the United Kingdom a British and not a French subject. No appeals in future to the French diplomatic authorities will be of any avail. The English Government, the English Treasury, the English Law Courts will recognise the English company exactly in the same way as if that company were composed exclusively of British subjects. But if that is true in our own country as to what will happen to a foreigner coming here, it will in all probability be equally true in foreign countries if a Britisher goes there. You thus have the possibility of British traders in foreign countries, by the mere fact of bowing to the spirit of nationalism and incorporating local companies within the local fiscal area, depriving themselves of all possibilities of assistance from the British diplomatic authorities in those countries, and becoming by their mere observance of the rules imposed by the nationalist spirit citizens of the Continental countries.

No limit can conceivably be imposed upon the power of a government to tax its own subjects. Limits could certainly be imposed upon discrimination against the subjects of any particular foreign country, but as between a government and a national of that government there can be no limit. Thus it is that British traders to-day in Soviet Russia, British traders in Germany, in Poland, in Austria, in Hungary, in Holland, in Belgium, in Switzerland, in Italy and in France find themselves, through the very personality of the local companies which they have incorporated in those countries, subject to taxation without limit, subject to legal penalty without any form of redress, subject to restrictions against which they cannot effectively protest, because by the very spirit of nationalism which induced them to go there they have lost their British characteristic, lost their trading as British nationals and become citizens of the countries in which their trade is carried on.

Instances are known to me of well known British industrialists being penalised in Germany in this manner and without effective means of redress. Obviously I cannot mention names, but one of the greatest household industries of this country—immensely powerful, doing a world trade and with, I should say, many dozen subsidary companies—is at present faced by the German Government with a demand, confiscatory in character, which is utterly impossible to comply with, and the alternatives are—remove bag and baggage from the country or submit. Diplomatic intervention is impossible, for it is formed as a German limited company. Recourse in the German Courts is available but useless, because the German decree is equally applicable to any similar German company. The fact that there does not happen to be any makes it look like discrimination, but the German answer is, "It is not our fault that there is no other company in similar straits; our legislation is not aimed at individual companies, it is of a general character."

I know of no remedy for that state of affairs. The requirement that articles should be made here may have the same consequence that Germany with her requirement that articles should be made there imposes on a British national. The urge to form your business or company in the country you go to is not merely to have separate capital and things of that character; in many countries it is the only way of securing land. For a long time since the War the only people who could take leases in France were nationals of France—either nationally born or nationally created by means of companies—and it is not infrequently the only means by which employment can be obtained. But there are two sides to this nationalist picture, as I am attempting to indicate.

Let us examine the same problem from another angle. A British trader, complaining of the fact that goods are made by foreign competitors at prices below those at which he can afford to produce them, complains of the competition. That competition, so long as the foreigner has not a factory within the United Kingdom, is competition caused by either the whole, or more probably a part, of the export trade of the foreign factory. Presumably the Britisher will say that the reason why the foreigner can produce at a different rate of cost to his British competitor is because trade union rates do not apply abroad, trade union restrictions are not in vogue, the burden of direct taxation is not as high, the cost of living and rate of wages are not as high, and generally there are State handicaps upon a British concern which do not apply to the foreign concern. Suppose, however, that the foreigner comes within the British tariff wall, he is then on a footing of equality so far as trade union rates of wages, trade union restrictions, rates of direct taxation and other matters are concerned, and the two factories are on an identical footing. Are we quite sure that the British manufacturer is prepared to withstand any and every form of competition from the output of that foreign factory? Are we quite sure that in that case, where a British subject is no longer dealing merely with the whole or part of the export trade of the foreigner but with the entire output of the factory set up within the United Kingdom, he will be able effectively to compete merely because the handicaps are identical, or is there any illusion in this proposal? Clearly competition within one's own market, for a unit established within it, is *prima facie* likely to be more extensive and on a larger scale than

competition from a country overseas. True, on comparing like with like, the competition from within, from a factory where conditions are identical, ought to be less severe unless by chance a foreign manufacturer, by special experience, by apter methods of training, or by more modern machinery, or cleverer salesmanship, establishing his factory within the United Kingdom, is able still to have a plus advantage in the open competition.

I pause here for a moment to give you an example. It appears that we have neglected the art of making the cardboard container. It would seem that the machinery for banding, folding and treating cardboard has been enormously developed in certain European countries which have not had the natural advantages of packing material that Great Britain possesses. We have abundance of material in England, but the Continental countries are obliged to substitute another material and then treat it, and they have invented machinery that will make all forms of container remarkably well. We have experience with the varnishing and colouring of these cardboard materials, and I learn that Germany with its great chemical industry, State-endowed and tremendously prosperous, is again able to lead the world in regard to enamels and varnishes applied to cardboard, which when once it is varnished must not be allowed to crack or crease. In inviting the foreign manufacturer to come into our midst and set up factories here, we may find, by the mere fact of doing so, that competition is actually increased, and it is conceivable that in some trades monopoly may be granted to the invading foreigner. Do not imagine that I am a prophet of gloom, but I think it well to point out that it does not do to raise a flag and shout "Hip, hip, hurrah" when the spirit of nationalism comes along. You must still go on working in your drawing offices, cultivating more patents and doing various other things, and above all you must every one of you get up a little earlier.

Let me return to the topic which engaged our attention at the commencement of these observations —the thought of waste provoked by the conception of the non-manufacture of an article near its supply of raw materials and the apparent waste and lack of purposeful effort in the transport of those raw materials over many miles of land and water from the country or place of their origin and growth to a distant country where they are used and converted into manufactured goods. Can every country in western Europe, for example, manufacture equally well within its own shores all the articles required by its average citizen for the greater part of his or her daily life? Leaving out of account essential foods, can the ordinary requirements of clothing, boots and shoes, tools of trade, articles of daily consumption and use be equally well made? Are there any countries, as there are certainly districts, where textiles are the speciality, others where hides and skins are dressed and prepared, others where the hosiery trades flourish, others for hats and caps; and then, with regard to articles of daily use, bedsteads, bedding, furniture, brushes, soaps, means of transport, newsprint paper, pencils, office materials, articles of sport and recreation, amusements—are these without specialised homes? Are they independent of locality or environment? Are they of so general a character as to fall within the classification mentioned earlier, of goods not subject to local conditions, not dependent upon local supplies, not requiring any particular skill or training, and having no otherwise exceptional features? Surely such a contention could never be made good. It is the negation of sound trading to set up within a tariff boundary an industry less efficient than that same industry would be if established elsewhere. It is the negation of sound business to divide one prosperous whole into a number of non-prosperous units. If the cost price of an article of general use can be kept low by the mere fact of mass production on a large scale in a central factory, is it not the height of economic futility, by the worship of an alleged nationalist need, to deplete that central factory and cause to be made within smaller, less efficient, more costly reproductions of sections of that factory, the goods which can be better made in the central works? Many factories do not manufacture in the whole sense of the term, but are more aptly described as assembling plants—materials either in the raw state, or partly worked up; or goods in a partial state of manufacture are not infrequently despatched from a central factory to branch factories elsewhere.

Many a great proprietary business arranges, as far as possible, to make sure of its supplies of essentials. Such essential supplies are imported in bulk to our country and then, either in the same state or worked up, are exported all over the world to the foreign factories or assembling plants of the branch companies constituted by the same owners.

If nationalism is pushed so far as to require every part of the finished article to be manufactured within the territory of the national, then such assembling plants are doomed and will no longer serve their purpose of employing local national labour. And what is to be said of the length of time of the nationalist urge? No country under its fiscal system gives any guarantee of its continuance; no country under its fiscal system gives any assurance that the whole basis of that system will not be changed in a night. Think of the position which arises once the complete separate manufacturing unit has been set up and then, for some reason or other—political, fiscal, or it may be quite extraneous reasons—it becomes no longer possible to continue manufacturing in that area. What prospects has a manufacturing concern of realising a factory specially built for its own needs at anything like cost? What type of realisation price will be obtained for the sale of raw material, partly manufactured goods and stocks of such a factory? Consider at the present time the numerous instances of factories set up in countries where there is an embargo, a ban on the export of capital, or provision for the lodgment in the currency of the country in a bank to a block account of all moneys belonging to a non-national concern.

Leaving out of account difficulties arising from such countries as Russia and Germany—how many manufacturing organisations with branch factories in the Argentine, in Brazil, in Hungary, to take countries at random, are faced with the sheer necessity of shutting down factories and realising at best? Do not these considerations point to the fact that on the free list of any properly constructed tariff there must be added goods, if necessary manufactured goods, provided it can be proved to an impartial Tariff Commission that the goods in question can, in the interests of good trading, better be manufactured outside the United Kingdom than they are able to be manufactured within the United Kingdom? Is not the old distinction of raw material on the one hand, and manufactured article on the other, a wrong classification? May it not be just as uneconomic, just as intentionally wasteful, to transport a raw material to the United Kingdom as it may be wasteful and non-economic to compel a manufacture within the United Kingdom of an article which can better be made elsewhere? May it not be in the highest sense economic to permit the importation of certain manufactured goods?

I realise that these observations constitute really a plea for a wider outlook, and that to some extent it may be argued, and no doubt will be argued by those of a particular political upbringing, that the very size and varied character of the British Empire provide the answer to the problems which I am raising. It will be said, and with some force, that within the limits of the British Empire there are to be found almost every raw material in quantities and qualities that defy competition, and that a self-contained Empire can very largely disregard the external world. Such an argument, possessing features of truth and possessing attractions, is, of course, fallacious. There are fewer people within the British Empire than within the whole world. There is no reason why British trade should be denied the faculty of trading with the non-Imperial peoples. Although it is largely true that the British Empire is endowed with stocks and supplies of various substances, no one can foresee the progress of science nor tell what new substances may not become a necessity of to-morrow; and there are certain classes of substances of which the British Empire is woefully deficient, but of which other countries are well supplied. The household match is an example in point. The great forests of Scandinavia and Northern Europe contain the aspen from the splints of which the match trade derives its raw material. These aspen splints do not come from within the British Empire and, although apparently trifling, the example will serve as an illustration.

If, then, nationalism pushed too far produces dangers of its own and great problems, the wider outlook in international trade is called for. That wider outlook can be cultivated by propaganda, by seeking through international action to lower tariffs, preferably by means of bi-lateral or multi-lateral Trade Conventions between States, and by encouraging bulk exchange between States themselves. It can be made an aim of Chambers of Commerce, and of the International Chamber of Commerce in particular, to help the advisory judges on tariffs with all the information at their disposal, so as to enable them to have before them as many facts as possible.

Before there can be propaganda of an effective character there must be conviction. There can only be conviction after sound judgment, expressed upon full facts. If the analysis made in the course of this paper contributes to a commencement of a study of that problem, its writer will feel more than justified in the task he has undertaken. It is submitted that a great deal of trouble is caused in the world by contradiction, that whereas team work represents the effect of forces pulling together to produce a desired result, an immense amount of material misfortune and of human unhappiness is caused by disruptive forces exercising the opposite effect and pulling apart.

We are at the outset of a new departure in fiscal and commercial systems. Are we, quite apart from the legitimate use of temporary expedients to check a given financial loss, embarking upon a policy with any defined conception of its logical consequences, or are we proceeding haphazard on the old unscientific basis of trial and error? If the former, are we all sure that we are bound for the same destination? If the latter, what is to be done to remedy the state of affairs? Diagnosis is the difficult part of every doctor's calling. It is on accurate diagnosis that human recovery depends. It is on accurate diagnosis that trade recovery depends. Do not let our diagnosis be affected by such extraneous considerations as whether every part of the article and its container, the paper which surrounds it and the string which ties up the parcel, is made of ingredients grown within the Empire, transported on British ships, mounted in a British factory and sold over a British counter by a natural born British shop assistant. Many of those considerations are quite irrelevant to the broad issue and ought to be kept in their proper perspective.

The broad issue surely is quite different—it is nothing less than the problem of every wireless receiving set. Can we select at will the best foreign or imperial station? Can we import what we need but cannot make? Can we make what we need and not import? Can we still, whatever we import and whatever we need, continue to export enough to keep up our export trade at the wonderful level we have hitherto attained? Can we, in return for the food and raw materials we require, sell in bulk or otherwise to the countries from which we obtain these essential foods and raw materials, goods which we can manufacture, and which they require, on conditions permitting high wage levels here, but low enough prices in the country of sale to challenge world competition? Selection of imports by control and exclusion of others—that is the problem, and it is a very big one.

I appeal, as I began, for the wider outlook and

quote these observations as some apparent problems of nationalism in connection with international trade.

Discussion.

Mr. A. S. COMYNS CARR, K.C., said he would like to begin by congratulating Dr. Burgin upon the extraordinarily wide range of knowledge he possessed with regard to the matter of international trade. What struck him (the speaker) when listening to the paper was the immense variety of complicated questions which inevitably arose in practice when endeavouring to fit the circumstances of any particular industry or trade into the iron frame of any scheme of tariff or commercial restriction. Dr. Burgin's points illustrated the difficulty and, he would say, almost the impossibility, of successfully achieving that task. The Lecturer had referred *en passant* to something which was to be proved to an impartial tariff commission. Now, he gathered that it was originally intended that this impartial tariff commission should make up its mind about each one of the numerous articles appearing in our classification of returns of imports and exports in time for something to be done with regard to it in the coming Budget. Now there appeared to be no time limit, but the idea apparently still was that it would be a speedy process. Well, he happened to have some little experience about that matter. From 1925 to 1928 there were inquiries held by a number of committees into very similar problems applicable to a few particular industries, and he (the speaker) took part in quite a number of them, and his experience in connection with them was that, in the first place, to investigate properly the circumstances of even a small fraction of an industry and the effect upon those circumstances of any proposed system of tariffs, used to take an impartial committee an average of three weeks per fraction of industry. Secondly, although there were a very large number of categories in the Board of Trade import and export returns, each one was found on examination to consist of a vast conglomeration of articles bearing a general similarity, and in order to ascertain the effect of any particular proposal upon them they had to be sub-divided into a large number of additional classifications. They had gathered from Dr. Burgin's address example after example of the peculiar ramifications of particular industries and the unexpected effects which the imposition of a particular form of tariff or trade restriction, whatever it might be, would have upon them. Now, how was any commission—he thought it was to be composed of five members—going to investigate the circumstances of all those innumerable trade classifications, those innumerable industries and sub-divisions of industries, if it was going to devote even the sometimes inadequate time to the work that was devoted by the committees in the years he had mentioned? How was it going to finish the task in our lifetime if it was to be done properly and if those who had a legitimate interest to put forward on one side or the other, or who had information of importance to be brought to the attention of the committee, were to have an opportunity of being heard? He would only give them one example. In one of the recent Abnormal Importations Acts there was included by mistake, through erroneous information being brought to the Board of Trade, a particular kind of paper which had never been made in this country and which could not be made in this country at all. It was used for the purpose of wrapping up food. The result of a 100 per cent. duty being put on that particular type of paper was that the people who used to wrap their fish and chips up in a hygienic paper would do so in pieces of newspaper. That was just an example of the mischief that could be done by pure ignorance, and it might arise a thousand times unless the investigations were properly carried out. He did not desire to make any other point, but it seemed to him that Dr. Burgin's most interesting paper illustrated the truth of that proposition over and over again, and the instances could be multiplied a thousandfold. They would thus realise the complexity of the trade and industry of this country and the mischief that might be done to it by ignorant interference.

Mr. W. R. CÆSAR said the points they had had put before them led them furiously to think. It would require weeks of thought in order to tackle them thoroughly. But one point impressed itself on him very much, namely, that we appeared to be suffering from too much nationalism. How was that to be cured? It used to be said before the war that the tendency of the world was towards absorption of small countries by the big ones, but that had now all been put on one side. A prophet once said that ultimately there would be four, or possibly only three, great nations. There was to be the great nation of Asia, whether China or Japan he did not know; then there was to be the great nation of Europe, which was to be absorbed by Russia; and there was to be America, which of course was to absorb the whole of North, Central and South America. It was a question in the mind of this prophet whether the British Empire was to be split up and swallowed by the others. There they had only three or possibly four nations. Dr. Burgin had suggested that if every country or nation had all its requirements within its own borders, everything might be well. He would very much like to know whether if the world were split up into only three or four nations they would be any happier for it. He could only hope that one of those nations would be the British Empire.

Mr. NORMAN CRUMP, one of the Assistant Editors of the *Economist*, said it was two years since he had the pleasure of hearing Dr. Burgin speak, and then it was under circumstances which the Chairman had so aptly described, and he could give first-hand evidence as to the way in which Dr. Burgin dealt with hecklers in what was shortly to be his constituency. But even though he had heard Dr. Burgin before, he must bear full tribute to the magnificent explanation he had given of a point that he confessed had for long bothered him—the question as to whether or not it was desirable for foreign firms to establish themselves in this country. He had had his doubts ever since, six years ago, he was in Canada and found the Canadians faced with the same question of immigration by American companies, and they were very uncertain at that time whether or not it was a good thing for Canada. But running throughout the whole of Dr. Burgin's address there was one doubt in his mind, and it was such a serious one in considering this question of the British tariff in its broadest essentials that he thought he ought to give it to them. To-day Great Britain was faced for good or for evil not only with a tariff, but with the combination of a tariff and a currency whose exchange value was free to fluctuate; and the two were

intimately related. The reason was this: if the tariff excluded some foreign goods which we would otherwise import, the natural effect would be for the pound to improve. Now, as the pound improved in exchange value, say from $3.5 to $4.0, or whatever it was, two things would happen. First of all, foreign goods would become cheaper because the pound would be worth more in the foreign currency in which the goods were originally valued; and secondly, if we were to retain our foreign markets for British goods and were unable to raise the foreign price we got for them, then as the pound went up we would get less sterling for our goods, and so our exporters would lose. He could envisage a state of affairs in which the predictions of those who said that a tariff would raise the cost of living in this country might not be fulfilled. He could equally envisage a state of affairs in which the tariff burden, if it was a burden, would be inflicted on this country's exporters if they were to keep their foreign markets. Finally, he could envisage a state of affairs in which the tariff would not only exclude a certain number of imports but would prevent from leaving this country a certain number of goods we would otherwise export, with the result that we would have done nothing to mitigate our adverse trade balance. One never knew how things were going to turn out in the field of international trade so long as one's own or other people's currency was free to move. He just wanted to mention one other point very briefly. It was brought home to him very clearly during a visit he paid to Berlin and Basle during the European crisis last summer. In spite of all indications to the contrary, he was sure there was a move over large sections of the Continent in favour of a general reduction of tariffs, and he was sure that if the Government would avail themselves of the provision contained in the Tariff Bill, now before the House, and extend reciprocal treatment to other countries, it would evoke an immediate response. The world at large was waiting for that lead. If the Government would keep the decks clear for giving that lead and would give it as soon as possible, he was sure they would have done the finest thing for the revival of British trade, Empire trade, and world trade and prosperity.

Mr. E. BALDRY, F.S.A.A., said he was quite aware that what he was about to say would be the negation of commonsense, as one's arguments always were when they differed from those of other people. Personally, he remained quite unconvinced by Dr. Burgin's arguments, and that was not due entirely to congenital idiocy on his part. Still, he recognised the profound thought that had gone into the paper. No one in these days was so blind as to assume that free trade or tariffs would do all that was required to cure the world's troubles. These things had to be examined on their merits. It was a question of administering a corpse-reviver to our own semi-moribund trade. It was quite true, he supposed, that in an ideal world free trade might be an ideal state of affairs. To have two men in employment was better than having one in employment, but he was sufficiently unregenerate, at any rate at the moment, to say he would rather have one Briton in employment than two Frenchmen or seven Chinamen. Free traders had to deal with people as they found them. Not, of course, that Dr. Burgin spoke as a Free Trader, but one could not resist the impression that he came "trailing clouds of free trade glory." In the present circumstances the world was an unregenerate place, and the ideal state of international free trade did not exist. We had possibly to use weapons to induce other people to come into the desirable state, and he thought the tariff weapon was a very potent one at the present time. If we were sane in regard to these things, and not dogmatic, he thought we should make some progress. We had rather stagnated in a free trade paradise, and any new suggestion which stimulated real thought on this point was to the good. He would not like it to go from that hall that all accountants were *ipso facto* free traders, merely because many of the views expressed had been in that direction. There were one or two specific points in Dr. Burgin's Paper on which he would comment, although he realised that to be specific was to court destruction at the Lecturer's hands. One was that presumably since Denmark had the sole control of some metal which was necessary for the manufacture of aluminium, we had, it was contended, to be very careful when we talked about tariffs or we should get a smack in retaliation from Denmark. Apparently Denmark had not, in the past, found it convenient to stifle her supply of that very desirable metal to America, which was a tariff country! The other point was with regard to Swedish timber and the dreadful danger of putting a duty on that article because we need it for our matches. He suggested that the effect of putting a duty upon it would not wholly be a bad one. Sweden's business was to sell her matches, and if part of her markets tended to dry up she could not instantly find new ones. What he suggested was that the stuff would come here just to the extent it was required. New Zealand had, he believed, potential forests which could produce that timber, and one object lesson to be learned was that possibly some obstacle put in the way of the Swedish match trade—not, of course, that he disliked the Swedes, who were most excellent people—might stimulate the New Zealand timber trade and create a new industry within the British Empire.

The CHAIRMAN said that before calling on Dr. Burgin to reply, as they had heard all sorts of things about the balance of trade, balancing budgets and things of that description, they might just clear up in a few words what was the problem with which the present Government had been confronted and why some move had been made from traditional free trade to the control of imports in the first instance by a flat rate tariff of 10 per cent., which of course was not intended to be protective itself, but a revenue tariff. For many years past goods had been brought into this country to the value of hundreds of millions in excess of the value of the goods we had been sending out. Of course, people sending goods into this country did not do so unless they were going to be paid for them; it therefore followed that the general statement of an import being paid for by an export needed stating very carefully to demonstrate its truth. The fact of the matter was that we were in the position of being able to import those goods, or were until last year, because of the savings of our fathers, who invested abroad capital to the extent of about 4,000 millions. The average rate of interest on that was somewhere in the neighbourhood of 6½ per cent., and it might be taken that one-half of it was brought home here and the other half left for investment abroad. In

addition to that, we were very largely the carriers of the world, and we were also to a large extent the bankers of the world. Furthermore, to a very considerable extent we did the insurance business. Those last items were generally termed "invisible exports." Now, in those invisible exports there had been a considerable decline. They could be taken singly, and it would be easy to prove the extent of that decline. As no Government could possibly take any steps by which the interest on investments would be increased, and as they could not take any steps which would increase the profits of shipping or the profits of banking or the profits of insurance, there was only one thing left over which they could have any control whatever, and that was a limitation of imports. He had no hesitation whatever in saying that if we could know of any way by which our exports could be sufficiently stimulated and we could rectify the trade balance in that way, it would probably be to the advantage of this country all round. If they could realise it—and he supposed everybody did—there was only one transaction in commerce over which the person carrying on a business had real control, and that was what he purchased. What he sold must be in the hands of the other man. That was the reason why the Government had decided that they must control imports. After all, we were over one hundred millions to the bad on last year's transactions, and there had never been anything like that for as long as he could remember. Something had therefore to be done in order to rectify that. Let it be understood, apart from any idea of free trade or protection, that was the problem and that was the way in which the National Government had set out to rectify it. It was a policy with which there was pretty general agreement between the members comprising the Government, although some particular steps might be taken objection to, and as far as he understood, it was a policy with which Dr. Burgin was fully in sympathy. He would admit that he was fully in sympathy with it himself.

Dr. BURGIN said he had to express his sense of obligation to Mr. Keens for the way in which he had presided and for the most stimulating and helpful way in which he had pointed the moral of what he (Dr. Burgin) had been trying to say. He felt particularly flattered by the presence of such economic authorities as Mr. Comyns Carr, Mr. Norman Crump and, of course, Mr. Baldry. Mr. Comyns Carr rather gave the assembly to understand with regard to these import duties that the Advisory Committee was to report between now and the Budget. That was a misconception. The import duties Bill was intended to be entirely independent of the Budget. It was to operate by Treasury Order as and when the Advisory Committee reached their findings. The Committee were to be appointed in the first instance for a period of three years, and they were eligible for reappointment, and this legislation was entirely independent of any question of ordinary revenue and expenditure of the country. It was a different type of measure, introducing a vast financial and commercial control experiment, with certain objects in view which were clearly set out in the Bill itself. He thought therefore that the point was misconceived. Mr. Norman Crump very clearly called their attention to the inter-relation of currency and tariffs. What was the use of having a duty of so much per cent. on something if that something was a variable quality? It was not only that the tariff itself was affected, but, as Mr. Crump pointed out, the depreciation of sterling for the moment was acting as an impetus and a help to many manufacturers; by merely keeping out goods we might decrease that help which the exporters received. It might be that that was their object in the long run, but it was better that it should be open and not disguised. Mr. Baldry would forgive him for saying that he had no wish to demolish him; he was too amusing. (Laughter.) Nothing would ever induce him to get rid of so charming a disputant and one who put his points so delightfully. But Mr. Baldry accused him of saying something about free trade and protection. He could assure him that he did not say what was attributed to him. He was analysing some of the experiences of a very long day to day experience of international trade and numberless visits to the Custom House and the Board of Trade. Whatever their political upbringing might have been, they were all setting out with the same hope—they wanted to do some good for the trade of the country and for the mass of the unemployed. What a tragedy it would be if those hopes were not realised! What a tragedy it would be if through any preventable cause their hopes were not as fully and completely realised as otherwise they might have been. His few observations were intended to be constructive; they were intended to be helpful, to serve the same purpose as a buoy or a lightship in guiding a big steamer down the channel. It did not do a mariner any harm to know that there was a rock here or there; it merely made him more knowledgeable, and that was all he (Dr. Burgin) was attempting to do, without any reference to free trade or protection. Might he say in passing that this Bill, as befitted a National Government, was a Bill incorporating the purest of free trade in the section which exempted shipbuilding materials altogether from any duty of any kind. It incorporated Imperial preference, which was one side of protection, and a revenue tariff. It was intended to be elastically drawn so as to enable all schools of thought to support it together as a national measure in a national need. Now Mr. Baldry said, "Encourage the exclusion of the Swedish match, and grow the New Zealand pine." What a pity that Sweden was 300 miles away and New Zealand only 13,000! What a pity that freight for shipowners was calculated on a mileage basis! It reminded him of when he was in British Columbia receiving deputations from the growers of Douglas fir, a marvellous wood which grew in the neighbourhood of Vancouver and which was wanted for furniture making here. At present we imported wood from Sweden for that purpose, and the proprietors of the Douglas fir forests offered to deliver—thanks to the patriotism of the Canadian Pacific—offered to deliver identical wood free in Liverpool at exactly the same price as the Swedish wood which only had to come across the North Sea. The Douglas fir people came to the Conference and said, "Here is Swedish wood delivered at so much c.i.f. Liverpool; here is Douglas Canadian fir delivered at the same price, c.i.f. Liverpool. Surely blood is thicker than water. Take the Canadian product." The British importer, however, said, "Excuse me, but does your ship go back?" Yes," they replied. "Well," he said, "the ship going back to Sweden will take a cargo of coal; will you do the same?" "Heaven forbid!" they replied. "We have coal

mines in British Columbia." So the price of that timber, although it looked the same, was not the same, because in buying from Canada there was little we could sell in exchange, and the whole outward and homeward freight fell to be borne by the purchasers. He only cited that as an instance. By all means, Mr. Baldry, let them encourage the growth of the New Zealand forests. That was sound Empire development of the best possible kind, but in the meantime if our people required matches, we must be sensible in our bi-lateral conventions with Sweden. He believed that the appendix to what he had been saying to them was another doctrine which financiers would understand, of the bulk exchange of goods between countries by contracts in the form of conventions. That was the line upon which modern business was, he thought, largely going to develop. Denmark had got on remarkably well with America. She had sold enormous quantities of croalite for smelting aluminium electrically. Denmark was a most enlightened country, a very good trader, and set an example to other countries in several respects. They could not say, "We will only use goods of a certain nationality." That would be trying to adopt powers that Canute thought he possessed but found he did not. In all these matters the very capricious character of materials was brought home to anybody who looked into it. It might be that some tiny thing was wanted, as a pigment or a chemical in the make-up of something. For instance, 56 different things were wanted for the average type of steel that we used, and there were no two of them produced in the same country. We must therefore be elastic and deal with things of which we were in great need with the utmost care, and internationalism must be wider than any national conception.

Mr. WALTER HOLMAN said it was his responsible but very pleasurable duty to attempt to express the appreciation and gratitude which everyone in that audience must have felt for the illuminating address to which they had listened. In his opening remarks the President said that Dr. Burgin was a politician, and he hoped he might class him as a statesman. After having heard the lecture, they could have no doubt on that point. Some of them had always refused to pin political labels on their coats, and they had refused to class themselves as free traders or protectionists. They had always felt that these were questions not of politics but of economics, and not only of national economics but of international economics. That view had been confirmed that night, and they were grateful to Dr. Burgin not only for the wide scope of his lecture, but also, if he might say so, for the most admirable manner of its delivery, which had made that evening one of rare delight.

Mr. W. NORMAN BUBB said he had very great pleasure indeed in seconding the vote of thanks to Dr. Burgin. One point that struck him very forcibly was when Dr. Burgin appealed to them all for the necessary team spirit, not only nationally but internationally. Although there had been a little divergence that evening by their friend the Treasurer, he would appeal to him and to all at the present time for a complete team spirit. We had a National Government composed of statesmen, not necessarily politicians, and that was the time for the team spirit. He thought they were greatly indebted to Dr. Burgin for the address he had given them and the advice as to the points against which they had to guard—the dangers that were ahead.

The vote of thanks was carried unanimously.

Mr. DUNWOODY, in proposing a vote of thanks to the Chairman, said he would like to join with the others in thanking Dr. Burgin for the very valuable lecture he had delivered. He would not say that he agreed with all the views Dr. Burgin expressed, but he had certainly opened up a number of points which some of them would have to consider in the future. Personally, he was not so much afraid as Dr. Burgin appeared to be of the difficulties that might arise from a large number of foreign firms setting up business in this country. He thought that was what we wanted them to do. He was interested to hear it stated that there was a feeling abroad in European countries that they were now anxious to deal with Britain in regard to tariffs. That was a new feeling. It did not exist at Geneva in 1928 and 1929 in the Economic Consultative Committee, which he had the honour of attending, and he thought that feeling arose when the Abnormal Importations Act was passed in this country. On one point he was sure they were all in agreement, and that was as regards the conduct of their Chairman, Mr. Keens, that night. When he saw Mr. Keens in the chair, and not on the opposite side of the table to him, he always felt perfectly safe. (Laughter.)

The vote of thanks was carried unanimously, and the proceedings then terminated.

The Incorporated Accountants' Golfing Society.

The annual general meeting of the Incorporated Accountants' Golfing Society was held at Incorporated Accountants' Hall on March 8th, when Mr. Martin Jenkins was elected Captain, and Mr. B. L. Clarke-Lens and Mr. Ernest E. Edwards, Joint Hon. Secretaries, and the following were appointed to serve on the Executive: Mr. Thomas Keens, Mr. A. T. Keens, Mr. H. J. Sier, Mr. Herbert Townsend, Mr. D. C. Brook.

A vote of thanks was passed to Mr. A. T. Keens, who resigned the joint honorary secretaryship, for his services in that capacity during the last six years.

The following meetings have been arranged for 1932:—

Spring Meeting: To be held at Ashford Manor on April 28th.

Summer Meeting: To be held at the R.A.C. Course, Epsom, on June 30th.

Autumn Meeting: To be held on the Coombe Hill Course on September 29th.

It is hoped that a match against the Solicitors' Golfing Society will be arranged to take place during the month of May.

The subscription to the Society is 10s. per annum, and prospective new members should apply to the Joint Hon. Secretaries at Incorporated Accountants' Hall, Victoria Embankment, London, W.C.2.

Mr. Donald H. Bates, F.S.A.A., President of the Incorporated Accountants' District Society of North Staffordshire, has been appointed a Justice of the Peace for the city of Stoke-on-Trent.

Incorporated Accountants' District Society of North Staffordshire.

ANNUAL DINNER.

The annual dinner of the Incorporated Accountants' District Society of North Staffordshire was held at Stoke-on-Trent on March 18th, when Mr. DONALD H. BATES (President), who was accompanied by Mrs. Bates, presided over a large company, which included Mr. Henry Morgan (London), President of the Society of Incorporated Accountants and Auditors, and Mrs. Morgan, Mr. William Allen, K.C., M.P. (Recorder of Newcastle-under-Lyme), Alderman H. J. Colclough (Deputy Lord Mayor of Stoke-on-Trent) and Mrs. Colclough, Mr. Thomas Keens (President of the Incorporated Accountants' London and District Society), Mr. James Paterson (Secretary of the Scottish Branch), Mrs. Ronald Copeland, M.P., Mr. J. J. Nelson (President of the North Staffordshire Law Society), and Mr. Harold K. Hales, M.P.

Mrs. Morgan was presented by Mr. Bates with a charming gift of pottery as a memento of her visit.

Mr. W. ALLEN, K.C., M.P., who proposed "The Society of Incorporated Accountants and Auditors, its Branches and District Societies," said he did so with pleasure, and it gave him even greater pleasure that the name of Mr. Henry Morgan was coupled with it. He had a very great respect for Mr. Morgan, and the alterations in the law which he was now striving for were essential if confidence were to be maintained in many of their great public companies. He wanted to say that he did really respect the work which was being done in the interests of the investing public of this country. He thought it was of vital importance to the public that men who were engaged in work which had to do with the public interest should belong to one of the great professional societies of this country. That was a protection to the public, because the Society could deal exemplarily with anyone who went wrong. In considering the strength of their Society, he had been looking at a few figures. He believed that the strength of every society depended upon the number of the young men of the country who joined it to carry on its work in the future. In the London district alone there were 976 students belonging to the Students' Society—he was eliminating those who were practising and had passed through and those who had ceased to practise—and those figures showed what an enormous and important part their Society was playing in the future of this country so far as it related to the invaluable work of protecting the public. He thought the most nervous moment he ever had in his life, and he was not afraid of public speaking, was when he went to lecture to their students on the Corporation Profits Tax. He was quite pleased, and was looking forward to it, because he was told that only students would be there, but when he got to the lecture room he found the fathers of the Society were present, armed with notebooks, and they put to him all kinds of questions which he could not answer. (Laughter.) He thought the lectures which were given to the students were very helpful in fitting them for their work. So far as he had been able to gather, accountants had only once been defined in a judicial decision. There it was said they were watchdogs and not bloodhounds. He thought that was a very true description. They were not there to hound down and condemn any particular person, but they were there as watchdogs on behalf of the shareholders who were connected with a particular business. It was their job to show that an account was fairly drawn up so as to represent the true position of the business or company. He congratulated Mr. Morgan on the high position he had attained in his profession. He was now engaged on work which had his Mr. Allen's) full sympathy. Mr. Morgan desired the accounts of companies to be kept in such a way as to show the real position so that shareholders could judge exactly where they stood. He desired the subsidiary companies to show their position in the balance sheet. Surely that was right, and if it were done it would be a protection to those who had invested in those companies. They looked to the Incorporated Accountants' Society and other bodies who dealt with those matters to protect the investing public and to raise still higher the standard of our national financial life.

Mr. HENRY MORGAN, President of the Parent Society, who responded, referred to the change in the fiscal policy of the country, and said they all hoped expectations would be realised. With so much unemployment and trade depression in the country one of the most difficult problems with which parents were confronted was the choice of a career for the boy just leaving school. He sympathised profoundly with parents who were faced with that responsibility, onerous enough at all times, but to-day a most harassing task. In former times, with trade and commerce in a healthy state, many avenues were available, and a boy with aptitude and industry could eventually at least earn a competency in a commercial house, industrial concern, or with a banking or insurance company. To-day, however, companies and other concerns were compelled to effect economies and were reducing their staffs to a minimum. In banks and offices, machines operated by girls were displacing the work of junior male clerks. Prospects were anything but bright, and young men were scrambling for jobs in all the professions. As a consequence the contention had been raised that there was overcrowding in the accountancy profession. The subject had attracted much correspondence and comment in various accountancy publications. For many years the numbers of those presenting themselves for their examinations had been continually increasing. It had been rightly recognised that there was no better preparation, not only for the practice of accountancy, but for a commercial career, than the practical training in an accountant's office, together with the examination tests of the Society. Of those who passed their examinations, a considerable percentage never had the opportunity of starting practice on their own account. That did not mean they did not remain in the profession, because a very large number of qualified accountants, probably running into thousands, were members of the staffs of the leading firms of accountants. On the other hand, large numbers of those who qualified did so with the intention subsequently of obtaining positions in industry and commerce. Both those channels of employment for qualified accountants had been practically closed for the time being. The accountancy profession, which was so closely allied with the interests of business and commerce, must experience the effects of the economies which were forced upon every section of the community. Business men, in effecting economies, either reduced the work which was carried out by accountants or they pressed for a reduction in their charges. In turn, many practising accountants had to reduce their staffs and their scales of pay. In the accountancy profession to-day there were hundreds of men who, after an arduous and perhaps expensive course of training, were either without employment or were receiving a salary quite disproportionate to their qualifications. Hundreds of new Incorporated Accountants were

being admitted every year, and by the end of the present year their total membership would be close upon 6,000. The argument had been put forward that steps should be taken to limit the numbers admitted. Undoubtedly the tests must be maintained at a very high standard. Parents must realise that mere quickness at mathematics was not a guarantee that a boy would succeed in the difficult profession of accountancy. He would hesitate to agree with those who advocated even a partial closing of the door of the profession to fresh entrants, at any rate at the present time. During the last generation the responsibilities of the profession had continued to increase, and until two or three years ago, when they had experienced such exceptional trade depression, the demand for the services of skilled accountants had likewise increased. After all, the profession should not adopt a policy which would prevent those who wished to embark upon an accountancy career from making the attempt. They did not want to limit the number of young men entering the profession. It was youth, with its enthusiasm and energy, which was the real life blood of any profession. The present unemployment was only temporary and arose from circumstances which affected almost every class and almost every country in the world. Trade depression would not continue indefinitely, and signs were not wanting in this country that the tide had turned and that a return to prosperity was in sight. There was no question that, during the last two or three years, a big section of the investing public had had their confidence in public company practice shaken. He maintained the accounts of public companies should be true and correct according to sound principles of accountancy. They should also be clear, so as to avoid the risk of any misleading impression being formed by the ordinary shareholder.

Mr. THOMAS KEENS, F.S.A.A., proposed "The City of Stoke-on-Trent and its Industries." He said they could congratulate themselves that, generally speaking, the local bodies of this country were carefully governed and were free from corruption. He warned local authorities against the practice of raising loans, which was very easy, but which left a burden of debt for the next generation. He believed we had reached a turn in the tide and that confidence had now been restored by the successive falls in the Bank Rate. He saw in some quarters a desire to return to party politics, but he hoped that day was far distant. We had not yet got over the crisis and there was much work to be done. He advocated relief from taxation of reserves invested in businesses for the provision of new capital, and said if businesses were allowed to develop on those lines industrial securities would again be the form of investment most sought after amongst the public.

Alderman H. J. COLCLOUGH, Deputy Lord Mayor of Stoke-on-Trent, responded, and referred to the growth of the city in 22 years since the federation of the six Potteries towns. He expressed hopefulness for the future, and said the pottery trade appeared to be escaping from the appalling trade depression of the past few years.

Mr. DONALD H. BATES proposed "Our Guests" in a brief and appropriate speech, and Mrs. RONALD COPELAND, M.P., Mr. J. J. NELSON, and Mr. JAMES PATERSON briefly responded.

A hearty vote of thanks was accorded to the Secretary (Mr. J. Paterson Brodie) for his service, and the President was cordially thanked, on the proposition of Mr. H. K. HALES, M.P.

Obituary.

OSCAR BERRY.

By the death of Mr. Oscar Berry, C.C., F.C.A., the profession of accountancy loses an interesting personality. Born at Bristol 76 years ago, Mr. Berry came to London in 1878 and served for a time as clerk to a then well known "trade" accountant. He afterwards commenced practice, and was admitted to membership of the Institute in the year 1885. In recent years he was the senior partner in the firm of Oscar Berry, Froude & Co., from which he retired shortly before his death. As a trustee in insolvency cases in the grocery and provision trades Mr. Berry's services were widely sought after. He was a useful member of the Corporation of London, and served also as Deputy Chairman of the Commercial Education Committee of the London Chamber of Commerce.

SYDNEY ERNEST CLUTTERBUCK.

We regret to record the death of Mr. S. E. Clutterbuck, M.B.E., J.P., F.S.A.A., senior partner in the firm of Clarke, Dovey & Co., of Cardiff, Swansea and Ton Pentre. Mr. Clutterbuck had been a member of the Society since 1907 and was admitted to Fellowship in 1910. Before qualifying as an Incorporated Accountant he had already been associated with the firm of W. C. Clarke & Dovey in the capacity of senior managing clerk for over fourteen years and was taken into partnership shortly afterwards. The honour of M.B.E. was awarded to Mr. S. E. Clutterbuck in recognition of his services in organising the Special Constabulary of Penarth during the Great War. He was a prominent Freemason, and took a keen interest in golf and yachting. Messrs. Clarke, Dovey and Co. announce that the practice will be continued under the same name by the surviving partners.

ALFRED GLADSTONE DEACON.

Mr. Alfred G. Deacon, F.S.A.A., founder and senior partner of the firm of Alfred G. Deacon & Co., of Manchester, London and Leicester, died on March 22nd at the age of 62. Mr. Deacon was elected an Associate of the Society in March, 1896, and a Fellow in 1914. The practice will be continued by the surviving partners, Mr. Frank Dixon, Mr. A. Sharp and Mr. A. J. Smith, Incorporated Accountants, at Leicester; by Mr. Frank Dixon at London; and by Mr. W. S. Berry, A.C.A., at Manchester.

EDGAR DUGUID KISSAN.

We regret to learn of the death of Mr. E. D. Kissan at the comparatively early age of 51, after an illness of about eighteen months. He was City Editor of the *Daily Mail*, *Evening News*, and *Sunday Dispatch* until his retirement in March last year, and as such he enjoyed a deservedly high reputation as a financial critic. His name will be familiar to many of our readers as a lecturer.

The Lewis Prize, founded in 1895 by the late Lord Merthyr, and offered annually for the best paper on selected subjects in connection with the South Wales Institute of Engineers, has for 1931 been awarded to Mr. J. Picton James, A.S.A.A., Chief Accountant to Baldwins' Collieries, Swansea. The subject selected was "The Application of a Graphical System of Costing for Collieries."

Some Defects of Company Law

WITH SPECIAL REFERENCE TO THE WORK OF ACCOUNTANTS.

A LECTURE delivered before the Incorporated Accountants' District Society of Swansea and South-West Wales by

Mr. RICHARD A. WITTY,
INCORPORATED ACCOUNTANT.

Mr. WITTY said: Since November 1st, 1929, when the new Companies Act came into force, many suggestions have been made for further and immediate amendments to the law relating to companies. Many of these suggestions have been made in entire ignorance or forgetfulness of the fact that the Company Law Amendment Committee, 1925-6, took evidence on many of these very proposals and came to the conclusion that legislation directed against some of the so-called abuses was not desirable.

I propose, therefore—

Firstly, to remind you of some of the general conclusions of that Committee;

Secondly, to enumerate some of the proposals which have been made since 1929; and

Thirdly to consider in more detail some apparent defects of the law, particularly affecting the work of accountants.

I want, however, at the outset, to express the view that the time which has elapsed since November, 1929, has not been sufficient to show the full effect of the amendments then made. It is inevitable that every big company case should lead to a clamour for amendment of the law. But we must realise that no amendment of the law can make joint stock company practice proof against every possible form of fraud. Indeed, it is difficult to see how any possible amendment could have prevented some of the most serious cases which have engaged public attention in recent years. Hasty legislation is nearly always bad legislation, and panicky legislation is certainly worse than no legislation at all. We must also bear in mind the general state of Parliamentary affairs, and in this connection I would remind you that Mr. Runciman stated in the House of Commons a few weeks ago that "the time is hardly ripe for a fresh inquiry, but if Hon. Members will let me have their suggestions on the particular points which they have in mind I will have them noted for investigation *when* the question of amending the Companies Act is under consideration."

Recognition of the foregoing facts does not mean that it is unwise to consider in detail what appear to be defects of the law. On the contrary, I think it proves how very necessary it is that apparent defects should be carefully considered and discussed by members of the accountancy and legal professions, by the financial Press, and by the business world in general. These defects can then be considered from every angle of view, and a balance struck as to the effect of a possible amendment in preventing the abuse on the one hand or in restricting legitimate enterprise on the other.

In that sense I am bringing some defects of company law to your notice to-night, and not because I think that immediate legislative action thereon is imperative or practicable.

COMPANY LAW AMENDMENT COMMITTEE, 1925-26.

The Company Law Amendment Committee of 1925-26, which sat under the chairmanship of Mr. Wilfred Greene, K.C., included three members of the accountancy profession, namely, Sir James Martin, Sir William McLintock and Mr. William Cash. That Committee was appointed by the Board of Trade to "consider and report to them what amendments are desirable in the Companies Acts, 1908 to 1917." Note the wide terms of the reference and remember that the Committee did, as a matter of fact, review the whole field of company law and procedure. I need not here deal with the recommendations of that Committee; you are probably familiar with them because the bulk of the recommendations were subsequently adopted and embodied in the Companies Act, 1928, which, you will remember, was merged in the Companies Act, 1929. This latter Act was, for all intents and purposes, a consolidation of company law to that date. I want, however, to draw your attention to the following short paragraphs from the Committee's preliminary observations in their report:—

> Par. 8.—Many of the suggestions made to us show that the idea that fraud and lesser malpractices can be stopped by the simple expedient of a prohibition in an Act of Parliament dies hard. Other witnesses, with a view to making such malpractices impossible, have advocated the imposition of statutory regulations and prohibitions calculated not merely to put a stop to the activities of the wrongdoer, but to place quite intolerable fetters upon honest business. It is often forgotten that in dealing with a matter such as company law, which affects so closely the whole business life of the nation, a certain amount of elasticity is essential if the system is to work in practice.
>
> Par. 9.—Impressed by these considerations, we have refrained from recommending any important change which was not, in our view, quite clearly demanded and justified by the evidence before us. We realise that the system of limited liability leaves opportunities for abuse. Some of these we consider to be part of the price which the community has to pay for the adoption of a system so beneficial to its trade and industry. It appears to us, as a matter of general principle, most undesirable, in order to defeat an occasional wrongdoer, to impose restrictions which would seriously hamper the activities of honest men and would inevitably react upon the commerce and prosperity of the country.
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> Par. 10 (states, *inter alia*).—In dealing with an instrument so nicely balanced as the existing law relating to limited companies, there is always the danger that some alteration, apparently desirable in itself, may have unexpected repercussions throughout the whole mechanism.

Those were the considered views of a Departmental Committee which held 38 meetings and considered every suggestion which had ever been made for Company Law amendment up to that date. There is little doubt that any future committee will adhere to the same views. You must, therefore, weigh those views as against the demands made for further legislative amendment, often, and, indeed, usually, by persons who have never stopped to think of the "unexpected repercussions" which might affect the whole mechanism of joint stock company practice if their demands received statutory support.

SUGGESTED DEFECTS OF THE PRESENT LAW.

Let me now summarise very briefly some of the amendments which have been definitely suggested since November, 1929, including apparent defects to which attention has been drawn without any specific proposals for an alteration of the law. I will enumerate them under headings only, and then, in the third section of my paper, I will consider some of those which appear

to be worthy of detailed analysis and which more particularly affect the work of accountants.

(A) *Prospectus.*

1. That a legal limit should be placed on flotation expenses so as to render it impossible for assets worth, say, £100,000, to be sold to the public for £500,000 by spending large sums on floating, advertising, underwriting and boosting.
2. That before the issue of a prospectus there should be deposited at the bank not less than 20 per cent. of the issued capital which has been underwritten.
3. That every person, other than the printer, whose name appears on the prospectus, shall be responsible for the statements contained therein, and if any fee or consideration is paid to any such person an explanation should be given with details and amounts in the prospectus.
4. That the prospectus should show the actual amount of working capital with which the company would commence business.

(B) *Transfers.*

5. That all transfers should state whether the parties thereto are principals or nominees.

(C) *Directors.*

6. That a director appointed at the time or within twelve months of a public flotation should be responsible for all the actions of the board of directors for a period of three years after his resignation. (This suggestion is to meet the so-called scandal of directors retiring from a board during the first year of a company's existence in cases where it is obvious that the difficulties of the company cannot be withheld from the shareholders.)
7. That the resignation of any director should be made public by notices in the *London Gazette* or newspapers, or conveyed to the London Stock Exchange.
8. That the number of directorships held by one person should be limited to six, or possibly ten. (This is directed against multiple directors who obviously cannot efficiently discharge their duties to all the companies on whose boards they sit.)
9. That all payments made by directors of a public company to themselves or nominees should, before becoming valid, be confirmed by the shareholders at the next ordinary meeting.
10. That directors should be licensed and licences should be suspended or cancelled in cases where misconduct or negligence has been proved.

(D) *Managing Director.*

11. That the law should define a managing director whose remuneration is not required to be disclosed in the accounts.

(E) *Voting.*

12. That every proposed resolution should be sent to every shareholder with a voting paper for or against, and that similar action should be taken in connection with a poll.
13. That the law should empower proxies to demand a poll where this power is not expressly conferred by the Articles of Association.
14. That shareholders should be provided with a fair and proper method of recording the votes to which they are entitled and that this right should not be dependent upon attendance at the annual meeting or the giving of proxies, usually to directors. (It has been suggested by our President, Mr. Henry Morgan, that this reform would abolish many of the gravest abuses in connection with public companies.)

(F) *Subsidiaries.*

15. That further regulations should be laid down as to the information to be given in published accounts as to the earnings and losses of subsidiaries.
16. That the names of all subsidiary companies should be disclosed with the results of each so far as incorporated in the parent company's accounts.
17. That a statement as to any accumulations of profits or losses by subsidiary companies in previous years should be given, as well as the current results.

(G) *Sub-Subsidiaries.*

18. That legislative provision should be made in regard to a sub-subsidiary company. (It will be remembered that in the definition of a subsidiary company it is laid down that shares must be held by the parent concern, but there are companies in existence to-day which are controlled by a subsidiary company, no shares being held by the parent company, and these sub-subsidiaries do not, therefore, come within the ambit of the present Act.)

(H) *Auditors.*

19. That auditors should state on their reports that the register of stocks and shares has been found correct or otherwise.
20. That the position of auditors should be strengthened by giving them an Accounts Committee of three elected shareholders with whom they may confer and who shall not be members of the board of directors.
21. That an auditor should state whether adequate depreciation has been made or not.
22. That an auditors' certificate on the published accounts of a public company should not be valid unless it certified that the auditors were satisfied that a copy of the profit and loss account had been issued to the members of the company and that a statement of the remuneration received by the directors had been embodied in the printed balance sheet distributed to members prior to the holding of the general meeting.

(I) *Balance Sheets.*

23. That where public accounts show only the book value of a company's investments, a statement should be appended giving the three years' average annual profit return on the disclosed value.
24. That the Registrar of Joint Stock Companies should regularly issue notices to companies calling for balance sheets to be filed.

(J) *Profit and Loss Account.*

25. That the law should set out more clearly what information is to be included in the profit and loss account which is required under sect. 123.
26. That shareholders should be given an exact statement showing specifically the results of the trading or business for the period under review.

(K) *Secret Reserves.*

27. That hidden or secret reserves should be made illegal. In other words, that whilst every adequate reserve may clearly be in the interests of the company, the information in regard to such reserves should not be held by the directors only, but should be given to every shareholder.

In addition to these specific complaints and suggestions, there have been speeches delivered and articles written

in general terms as to the incompetence of directors, as to various means for giving shareholders a better control over the management of the company and a more effective method of exercising their existing rights, and as to the protection of shareholders or intending shareholders against misleading prospectuses.

I do not pretend to have tabulated every suggestion that has been made during the past two years, and I have omitted many which were obviously too impracticable to be worthy of consideration as defects of the law. Other suggestions may have come under your notice, and I hope you will enumerate them in the course of the subsequent discussion. But in any event you will probably agree that we have ample material for thought and discussion to-night.

Some of these suggestions were made by Mr. Arthur Michael Samuel, M.P. (now Sir Arthur Michael Samuel, M.P.), at the Incorporated Accountants' Hall, and in the columns of *The Accountant*; others have been made by our President, Mr. Henry Morgan, and some at various times and on different occasions during the past two years.

It is not possible for us to consider them all to-night, but I want now to elaborate those dealing with profit and loss accounts and balance sheets, auditors, secret reserves and the suggestions relating to holding companies under the headings of subsidiaries and sub-subsidiaries.

Profit and Loss Account.

Sect. 128 (1) of the Companies Act, 1929, provides that "The directors of every company shall at some date not later than eighteen months after the incorporation of the company and subsequently once at least in every calendar year, lay before the company in general meeting a profit and loss account or, in the case of a company not trading for profit, an income and expenditure account for the period, in the case of the first account, since the incorporation of the company, and, in any other case, since the preceding account, made up to a date not earlier than the date of the meeting by more than nine months, or, in the case of a company carrying on business or having interests abroad, by more than twelve months:

"Provided that the Board of Trade, if for any special reason they think fit so to do, may, in the case of any company, extend the period of eighteen months aforesaid, and in the case of any company, and with respect to any year, extend the periods of nine and twelve months aforesaid."

That section follows the recommendations of the Company Law Amendment Committee contained in paragraph 72 of their Report, as follows: "Directors should be bound to see that proper accounts are kept and to lay a profit and loss account and balance sheet before the company in general meeting once a year at least, and we recommend that Articles 103, 104, 106 and 107 of Table A should be compulsory in the case of all companies."

In other words, the provisions of the old Table A are now incorporated in the statute. It is worthy of note that although the Committee made detailed recommendations as to the form and contents of the balance sheet (their recommendations in that respect being subsequently incorporated to a large extent in the Act), they refrained from making any recommendation or any suggestion as to the contents of a profit and loss account. This may have been deliberate on the part of the Committee or it may be that they expected the ordinary commercial interpretation to be placed on the words "profit and loss account." In the minds of the commercial world there is little doubt that a profit and loss account is expected to show under suitable headings the various revenue debits and credits in such a way that the owners of the business can form a reasonable judgment as to the actual result for the period covered by the account. In actual practice it is becoming the habit in some directions to give the minimum possible information in the profit and loss account. The credit is oftentimes a single item covering trading profit, if any, and all other extraneous income either received during the period or brought to credit during the period. A distribution account is not a profit and loss account.

There is also a point to bear in mind that it is only necessary that the profit and loss account should be laid before the company in general meeting. It is a real defect of the law that the directors are not compelled to issue a profit and loss account to all the shareholders in the same way as they have to issue a balance sheet. It is, of course, quite true that many public companies do issue a profit and loss account, but it should be made compulsory in all cases.

In this connection we must consider the *Royal Mail Steam Packet* case, and the views which were then expressed as to the economy of information vouchsafed to the shareholders, although the exact point as to the contents of a profit and loss account was not then seriously considered. But in considering that case let us remember that the circumstances were of an exceptional nature. The position which was then disclosed was largely the outcome of abnormal conditions arising from war-time finance. When the liability for excess profits duty was 80 per cent. it was imperative that ample reserves should be made under this heading. You will remember, too, that the position of shipping companies in relation to excess profits duty underwent very considerable amendment as regards procedure and as regards ultimate liability. I draw attention to this fact in passing because I think the conditions there disclosed were abnormal and should not of necessity be used as a basis for amendment of the law. But let me recall to your minds the words of the Attorney-General in his reply for the Crown: "Let us escape from the idea altogether that the accountants' profession is some kind of mysterious thing, and that you are entitled to use words, in addressing an ordinary shareholder, which might or might not convey a meaning more or less defined to an accountant. That is not the question. The question is what impression would be conveyed to the mind of the ordinary intelligent shareholder and, secondly, what impression was intended to be conveyed?" After all, the shareholders of a company are the *owners* of a company, and they should receive all the information that can be given with regard to their property. The old argument that there is a grave danger in giving information to competitors has been pretty well exploded by now. If all companies were compelled to give detailed information to their shareholding owners, the advantages would far outweigh the disadvantages. The policy of full disclosure is already adopted by a fair proportion of our large public companies and there is no evidence that they have suffered in consequence of that policy.

Another important point to consider here is whether the accountancy profession should voluntarily take any steps in the matter of fuller disclosure to shareholders through the profit and loss account, or whether the profession must wait for an amendment of the law. You will have noticed from the *Incorporated Accountants' Journal* that the Council of the Society have appointed a sub-committee of the Council "to consider the evidence adduced at the trial of the chairman and auditor of the

Royal Mail Steam Packet Company and to report whether any amendment of the law is deemed necessary, and what, if any, alteration of a voluntary character may be considered advisable in the compilation of company accounts or their certification by professional auditors." The appointment of that committee does not debar the members of the Society from expressing their personal opinions on the matter. Indeed, I think it will be helpful to the Committee to have as many expressions of opinion as possible through the District Society organisations. You will remember that the Opinion of Counsel in reply to specific questions submitted by the Institute of Chartered Accountants was to the effect that it would be difficult and probably impossible to insist upon their members making any alterations of a voluntary character.

As a basis for discussion, then, I am going to suggest to you that it is not wise for the accountancy profession to take any voluntary steps with regard to the disclosure of information to shareholders in the profit and loss account, but that the matter is one for amendment of the statute. My reasons for putting forward this view are as follows :—

1. The duties placed upon auditors by the law are so heavy that it would create an almost impossible burden if auditors were expected voluntarily to increase their responsibilities.

2. A voluntary burden would not be universally adopted. Neither the Society nor the Institute has power to compel the members to accept any suggestions which might officially be made as to voluntary action.

3. It is undesirable in the highest degree that the directors of a company should be relieved in any measure from their legal obligations to prepare the balance sheet and accounts for submission to the auditors and for presentation to the shareholders. The directors may, of course, employ accountants to assist them in the actual preparation of the balance sheet and accounts, but the legal responsibility for the form and contents of these documents is upon the directors, and should remain so.

Secret Reserves.

You will remember that in the *Royal Mail Steam Packet* case the evidence and judgment turned largely on the question of hidden reserves which were created by what subsequently proved to be excessive allowances for depreciation and the inclusion of excessive amounts for liabilities under the heading of taxation, and which were brought back to the credit of profit and loss in later years without any clear indication of the amounts so brought back in each year. You will remember, too, that in that case the Court was satisfied that the amounts brought back were properly brought back in the years when they became free. At the same time, it cannot be denied that the commercial world was awakened to the whole danger of secret reserves and the covering up of bad results in a given period by bringing back such reserves to credit. Let it be clearly understood that the creation of a reserve in itself is a perfectly legal and prudent action, and where the facts are clearly disclosed to the shareholders, the practice is obviously one to be commended.

The point we have to consider here is the creation of secret reserves which can be accomplished by various means—by writing down the values of assets below their true figures, by the creation of excessive depreciation funds, or by the creation of unnecessarily large reserves for taxation or other purposes. On this point I think we all agree with the views expressed by Mr. Henry Morgan, who has publicly stated that secret reserves could arise only through an understatement of profit, and in no other way. It cannot be denied that balance sheets or profit and loss accounts which are affected by secret reserves are untrue to the extent of such reserves. It follows that in a year when the secret reserve is utilised, the profit and loss account is again incorrect, because the profit is over-stated or the loss is under-stated, as the case may be. Assuming, then, that we are all in agreement that no sufficient argument has ever been adduced to justify the creation of reserves without disclosing the details to the shareholders, what is to be the attitude of the accountancy profession where they are confronted with a balance sheet which is incorrect to the extent of the hidden reserves known to exist? It cannot be denied that the practice has been so largely adopted that it can hardly be said to mislead shareholders. But we cannot pretend to be satisfied with the existing state of affairs. For the same reasons that I have given under the above heading of "Profit and Loss Account," I incline to the view that this question of hidden reserves is not a matter for voluntary action by the accountancy profession, but rather one for legislative amendment. We must not, however, be blind as to the difficulties of framing an enactment that would achieve the desired result without involving those "unexpected repercussions" which are to be avoided. It should, however, be possible to draft a clause insisting that every reserve and every credit in the nature of a reserve should be disclosed as such on the face of the balance sheet, and, further, that where a liability or contingent liability is not definitely ascertainable and is included in the balance sheet at a covering figure, the facts should be disclosed in the report of the directors. Respecting assets which have been unduly written down, this difficulty can be met by an amendment in relation to the stating of the assets in the balance sheet by requiring that there should be shown in relation to all fixed assets the value in the previous balance sheet, less the depreciation written off in the period under review. Any excessive writing down would at once be apparent.

Broadly speaking, the danger lies not so much in the creation of secret reserves as in bringing them back to the credit of revenue in a subsequent period. This again emphasises the need for a more detailed profit and loss account, showing the results of the business for the period and showing separately any extraneous credits.

Balance Sheets.

It is a tribute to the work of the last Company Committee that comparatively few complaints are made about the form and contents of a balance sheet apart from questions of profit and loss and apart from questions in relation to holding companies and their subsidiaries, with which I will deal under a separate heading. Indeed, the only serious suggestion I have seen is that where the balance sheet shows only the book value of a company's investments a statement should be appended giving the three years' average annual profit return on the disclosed value. This suggestion is sound in so far as it is based on the necessity for giving shareholders such information as will enable them to form their own judgment as to the value of the company's investments. At the same time we must recognise that at the present date such a statement would be of little value in this direction. The other suggestion, that the Registrar of Joint Stock Companies should regularly issue notices to companies calling for balance sheets to be filed, is a

matter of procedure and not a matter requiring legal enactment.

AUDITORS.

Broadly speaking, there is general agreement in the commercial world with the view expressed by the Company Law Committee that the law as it stands with regard to the powers and duties of auditors is satisfactory. A degree of elasticity in this respect is far preferable to any rigid formula. The disciplinary powers of the various bodies of accountants are an effective barrier against improper action by individual auditors. Let us, however, for a few minutes, examine the specific suggestions which have been made. The idea that the position of auditors should be strengthened by giving them an accounts committee of three elected shareholders with whom they may confer and who shall not be members of the board of directors is not an entirely new suggestion. I submit, however, that shareholders' committees of this character could not really strengthen the position of the auditors unless the members of the committee had as much information as the directors of the company and the auditors of the company combined. The suggestion would inevitably involve the creation of an additional paid office, as no individual shareholders would be likely to give the necessary time without remuneration, or, if they were so prepared, they would probably not be the type of shareholder most likely to be of use to the auditors. This suggestion appears to me, therefore, to be interesting but not practicable.

Then it is suggested that auditors should be made responsible for the accuracy of the register of stocks and shares. Personally, I think this is a good suggestion, but again one which could only be effected by an amendment of the law. The accuracy of these statutory records is very important, but it must be recognised that this suggestion would probably entail, certainly in the case of all large public companies, a continuous audit of the transfers and transfer register before each board meeting and an examination of all old cancelled certificates and of the issue of new certificates. This work is already done by the auditor in a large number of cases, and it would be an improvement if it were made obligatory in every case by law. With regard to the suggestion that an auditor should state whether adequate depreciation has been made or not, this, I think, would be throwing an impossible burden upon the auditor. In any event, he could not do more than express a personal opinion, and the point is sufficiently covered by the present law under which an auditor can call attention to the fact in his report to the members if he has serious occasion to think that the assets appear in the balance sheet at an excessive figure owing to inadequate depreciation. The only other suggestion under this heading involves the actual issue of the profit and loss account and the statement of the remuneration received by the directors, and these points would be covered by the suggestions we have already considered under the general heading "Profit and Loss Account."

SUBSIDIARIES AND SUB-SUBSIDIARIES.

The defects of the law under these headings arise in relation to the information to be disclosed in accounts of holding companies. Sir Gilbert Garnsey, in the new edition of his work, "Holding Companies and Their Published Accounts," deals in detail with these points, and I am bringing before you, with due acknowledgment, the views expressed by Sir Gilbert Garnsey in that book.

The requirements of the Companies Act, 1929, relating to the statement regarding subsidiary companies, have not entirely achieved the recommendations of the Company Law Amendment Committee. That Committee stated: "We consider that shareholders and others concerned are entitled to know whether the dividends proposed to be declared by the holding company are justified by the results of the group as a whole." The Act itself provides, in sect. 126, that there shall be annexed to the balance sheet of the holding company a statement as to how the profits and losses of the subsidiary company or subsidiary companies have been dealt with in the accounts of the holding company, and it is specially provided that it shall not be necessary to specify in any such statement the actual amount of the profit or loss of any subsidiary company or the actual amount of any part of any such profits or losses which has been dealt with in any particular manner. There seems to be a very real need for an amendment of the Act providing for specific information as to the profits or losses of each individual subsidiary and for a statement as to any accumulations of profits or losses by subsidiary companies in years prior to that dealt with in the statement now required by law.

We have a further suggestion, that the names of all subsidiary companies should be disclosed with the results of each so far as incorporated in the parent company's accounts. Personally, I cannot see any very definite advantage in this suggestion, but on the other hand I see no real disadvantage, and if it is to be taken as a part of the general policy of making a fuller disclosure to shareholders then I think it is to be commended.

Lastly, we come to the suggestion that legislative provision should be made in regard to a sub-subsidiary company. Sir Gilbert Garnsey calls attention in his book to cases where a company is really controlled by a subsidiary company of the parent company. The subsidiary company thus becomes the holding company of the sub-subsidiary, but there is no direct connection between the sub-subsidiary and the parent holding company, and thus the provisions of sect. 126 do not apply to the latter company in respect of this particular sub-subsidiary. This little game could obviously be extended almost *ad infinitum* and is an excellent example of the difficulties of legislating for every possible contingency. Presumably, however, the point could be met by an amendment of the law providing that sub-subsidiaries in any degree or power should be considered as subsidiaries for the purposes of sect. 126 in relation to the parent holding company.

Alternatively, provision might be made that where any group of companies is so interlocked that all the companies in that group are either holding companies, subsidiaries or sub-subsidiaries in relation to one or more other companies in the group, then every shareholder of every company in the group should be entitled to receive a consolidated balance sheet and schedules of the whole group.

One further curious anomaly is noted by Sir Gilbert Garnsey, that of a holding company becoming a subsidiary to its own subsidiary company. Consider "A" company as the parent company and "B" company as the subsidiary; there is nothing to prevent "B" company holding sufficient shares in "A" company to constitute the latter a subsidiary of "B." Cases of this character have been met in actual practice, but they hardly call for legislative action as presumably both "A" and "B" would be required to issue their accounts and statements as holding companies.

COMPANY PROMOTION.

Time will not permit to-night of our considering in detail the effects of the law in relation to prospectuses and directors, but I would like to express the view that

a large percentage of limited liability scandals arise from bad, and sometimes dishonest, promotion at the outset. When the inception of a company is based on healthy finance, there is no need to be afraid of giving information to shareholders, no likelihood of absolute disaster beyond the ordinary commercial risks which are also run by private traders. The promotion—or I would prefer to say the promoter—is the prime cause of most of the evasions and tricks by which shareholders are robbed of the money they invest. What is the remedy for that particular defect? I suggest that a compulsory disciplinary code should be applied to promoters similar to the code enforced upon professional men. Unless the promotion of companies is placed entirely in the hands of professional men who are already subject to disciplinary rules, the legislature should create a Register of Company Promoters, the persons on that Register being subject to stringent disciplinary rules, and shareholders should be given the right to lodge complaints against the persons on that Register. Where the complaints were substantiated, the particular promoter would be removed from the roll. It should be possible to draft provisions which would prevent the rogue-promoter from acting under the shelter of the name of a registered promoter.

CONCLUSION.

In conclusion, let us remember that the average shareholder looks for protection to the auditor. The shareholder does not understand or care about the niceties of the law; he does not realise or appreciate the difficulties with which the auditor is faced. But he trusts the auditor and, I think, we may say with some degree of pride that the members of the accountancy profession have proved themselves worthy of that trust. There must be no slackening of effort to attain our ideals, and where we believe that company law and procedure call for amendment, we must press for those amendments along proper and constitutional lines. We hold an honoured and trusted position in the business community, and it is the duty of each one of us to see that the principles of our profession are transmitted pure and unpolluted to our successors.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

Scottish Branch: Meeting of Council.

A meeting of Council of the Scottish Branch was held in Glasgow, on the 23rd ult., Mr. J. Stewart Seggie, President, in the chair. There were also present: Mr. D. R. Matheson, M.A., LL.B., Edinburgh; Mr. E. Mortimer Brodie, Port Glasgow; Dr. John Bell, Mr. R. T. Dunlop, Mr. P. G. S. Ritchie, Mr. J. Cradock Walker, Mr. E. Hall Wight, Glasgow; Mr. W. J. Wood, Perth; Mr. J. T. Morrison, Coatbridge, and Mr. James Paterson, Secretary of the Branch.

Apologies for absence were intimated from Mr. D. Hill Jack, J.P., Mr. Walter MacGregor, Edinburgh; Mr. W. L. Pattullo, Dundee, and Mr. Alex. Davidson, Peterhead.

Reports were submitted on membership and other matters and variously disposed of.

After the Annual Meeting the Council met and re-elected Mr. Seggie, President; and Dr. John Bell, Mr. R. T. Dunlop and Mr. W. Davidson Hall, Vice-Presidents for another term.

Society of Incorporated Accountants and Auditors.

(Scottish Branch.)

Annual Meeting.

The fifty-second annual meeting of the Scottish Institute of Accountants, the Scottish Branch of the Society, was held in Glasgow on the 23rd ult., Mr. J. Stewart Seggie, F.S.A.A., President of the Branch, in the chair. There were also present: Mr. D. R. Matheson, M.A., LL.B., Mr. E. Mortimer Brodie, Dr. John Bell, Mr. R. T. Dunlop, Mr. P. G. S. Ritchie, Mr. J. Cradock Walker, Mr. E. Hall Wight, Mr. W. J. Wood, Mr. J. T. Morrison, Mr. R. T. McCutcheon, Mr. Mungo Campbell, Mr. J. Cecil Gibb, Mr. Alex. M. Shaw, Mr. J. M. Roxburgh, Mr. Alex. B. Marshall, Mr. J. Hawthorne Paterson, Mr. A. G. Barclay, Mr. James A. Scott, Mr. J. C. W. Murray, Mr. Robert Fraser, and Mr. James Paterson, Secretary of the Scottish Branch.

Apologies for absence were intimated from Mr. D. Hill Jack, J.P., Mr. Walter MacGregor, Mr. W. L. Pattullo, Mr. Alex. Davidson, Mr. J. Stirling Brown and others.

The Chairman, in moving the adoption of the report and accounts, said that he wished to thank the Council of the Branch for electing him President of the Branch. Proceeding, he said: During the year the Council resolved to secure a Presidential Badge for the President, and you will observe it is being worn to-day. I cannot leave this subject of the Presidentship of the Branch without referring specifically to the third paragraph of the annual report. You will observe from that paragraph that Mr. D. Hill Jack resigned from the Presidentship of the Society last March, after occupying the office for 27 years. I am sure I voice the sentiments of everyone present when I say that we should record in the Minutes of this general meeting, being the first occasion upon which the members, apart from the Council, have met, our sincere appreciation of the valuable services rendered to the Society by Mr. Hill Jack, and our wish that he may yet be long spared to act on the Council of the Society.

The report which you have before you deals mainly with local affairs, but before leaving these local affairs I would like also to refer to the generosity of Mr. W. Davidson Hall in again handing over the interest on the £100 debenture for the purpose of distributing prizes. I had the pleasure of handing over the first prize granted from the fund to Mr. Harris at a meeting of the Glasgow Students' Society recently, and I can assure Mr. Hall that his generosity is not only appreciated by the members in general, but by all the students.

While, as stated above, our report deals with local affairs, I would just like, in submitting it, to refer to one or two matters of general interest to the profession. During the past year the one outstanding matter which has caused a stir in accountancy circles was the charge against the auditor of the Royal Mail Steam Packet Company, Limited, and the satisfaction which the decision gave to the profession in respect that the auditor was held not guilty of the charges brought against him. A full report of this case was published by the Society, and copies are now in the Library for the perusal of any of the members. Arising out of that case the Council of the Society resolved that an inquiry be made as to (1) whether the provisions of the Companies Act, 1929, relating to accounts or audit are adequate for the protection of the investing public, and, if not, what amendments are desirable; (2) what, if any, alteration of a voluntary character is considered desirable in the compilation of

company accounts or their certification by professional auditors.

Another matter which is of interest to the members as a whole is the fact that the Finance Committee of the Society has had under consideration the formation of a pension scheme for Incorporated Accountants and Incorporated Accountants' clerks, and the matter has been referred to a sub-committee to consider the correspondence and suggestions received, and to make a report. We shall await with interest the deliberations of that sub-committee. In a Society such as the Society of Incorporated Accountants and Auditors with so large a membership, it might be quite reasonable to expect that future entrants would be admitted into an annuity fund on payment of an extra admission fee, or part of the annual subscription earmarked as a premium towards that fund. The difficulty I foresee, however, is to deal with the big number of present-day members and the varied ages of those members. It may be that an option might be given to the present members to attach themselves to such a fund by paying the actuarial capitalised value of the benefits suggested. The matter has, however, as I have stated above, been referred to a sub-committee, and all that we can do is to await their report.

At a meeting of representatives of District Societies held on May 20th last I observe in their minutes—and this should be noted by the Scottish members, although we are not really officially represented on the District Societies' Committee—that the President deprecated the use of additional descriptions other than Incorporated Accountant. He requested representatives to encourage this view among members in their respective districts. I do not know how that suggestion appeals to the general body of practitioners in Scotland, but my own view is that it detracts from the status of the Incorporated Accountant when additional descriptions are added. I leave the suggestion with the members for what it is worth, but I think the sooner we give publicity to the term "Incorporated Accountant," in Scotland at least, the better for the profession in Scotland, especially when the words "Chartered Accountant" have got so deeply rooted in the public's mind that the public are apt to conclude there is no other qualified accountant but the Chartered Accountant.

The adoption of the report and accounts was seconded by Mr. R. T. Dunlop, and, after remarks by various members, was unanimously agreed to.

The retiring members of Council, Mr. W. Davidson Hall (Glasgow), Mr. James Paterson (Greenock), Mr. J. Stewart Seggie (Edinburgh), and Mr. W. J. Wood (Perth), were unanimously re-elected. The honorary auditors, Mr. Robt. Fraser and Mr. J. C. Murray, were also re-elected.

ANNUAL REPORT.

The Council have pleasure in presenting the 52nd annual report of the Scottish Branch of the Society of Incorporated Accountants and Auditors for the year 1931.

The Council record with regret the death since last annual meeting of Mr. William Dow, F.S.A.A., Bridge of Allan, formerly an active member of the Scottish Branch. Mr. Dow was a member of the Committee of the Glasgow Students' Society in the early years of that Society and did excellent work in connection with it. He had retired from business for some years but kept in touch with the Scottish Branch.

After the annual meeting in March, 1931, the resignation of the President of the Branch, Mr. D. Hill Jack, J.P., was intimated. Mr. Hill Jack was elected President of the Scottish Branch in 1904, and had been re-elected annually since that date, thus occupying that office for the long period of 27 years. The resignation was received with regret, and the Council placed on record their appreciation of the good work done by Mr. Hill Jack on behalf of the Society, and particularly of the Scottish Branch as President and as a member of the London Council for many years. In room of Mr. Hill Jack the Council unanimously elected Mr. J. Stewart Seggie, F.S.A.A., Edinburgh, one of the Vice-Presidents, to be President, and Mr. W. Davidson Hall, F.S.A.A., Glasgow, was elected a Vice-President in room of Mr. Seggie.

The new President, Mr. J. Stewart Seggie, during his first year of office has taken a very active part in the affairs of the Society. He has delivered three lectures to Student Societies. At the North Staffordshire District Society he delivered a lecture on "Signposts to Costing Accounts" which appeared in the *Journal* of November, 1931. He also delivered to the Glasgow Students' Society a lecture on "Executorship Accounts," and at the inauguration of the Aberdeen and District Students' Society he delivered an address on "Reserves, Secret and Otherwise."

The Society's examinations were held in Glasgow in May and November, 1931, and were attended by 5 Preliminary, 26 Intermediate, and 23 Final candidates. Of these 4 Preliminary, 12 Intermediate, and 10 Final candidates passed. One Final candidate, Mr. E. H. Harris, Glasgow, was placed in the Honours List in the May examination, and the Council awarded Mr. Harris the W. Davidson Hall Prize as being the best Scottish student of the year. The amount of examination and other fees paid through the Scottish Branch in 1931 was the highest in the history of the Branch, being £317 18s. 6d., as against £241 18s. 6d. last year.

In terms of Bye-Law 24, which provides that every candidate for membership of the Society must become a member of a Students' Society or Students' Section of a Branch or District Society within three months after passing, or being exempted from, the Preliminary examination, there has been an increase in the membership of Glasgow and Edinburgh Students' Societies. There has also been a Students' Society established for Aberdeen and district, the successful inauguration of which, on January 13th last, was attended by the President and Secretary.

In consequence of the removal of the Secretary's office in Glasgow, opportunity was taken to thoroughly revise the Library list of books and discard many not now in general use and to add a number of new books and new editions of books recommended for the examinations. The attention of members and students who have borrowed books from the Library is called to the necessity of returning these without delay in order that a new list may be completed.

The Scottish Branch is represented in the membership of the Glasgow Chamber of Commerce by Mr. Robert T. Dunlop, F.S.A.A., and Mr. John A. Gough, F.S.A.A., and on the Council of the Parent Society which meets in London by the President and the Secretary.

For many years the Scottish Branch was fortunate in respect that no claims were made on the Benevolent Fund, but in recent years some cases of dependants of deceased members fell to be considered, and these were generously dealt with by the Trustees of that Fund. The Council, therefore, again commend this Fund to the support of the members of the Scottish Branch, either by life membership, donation or annual subscription.

The Council also recommend that all members of the Branch, and senior candidates, should be subscribers to

the *Incorporated Accountants' Journal*, the official organ of the Society, the annual subscription to which is 12s. 6d.

The members of Council who retire are:—Mr. W. Davidson Hall (Glasgow), Mr. James Paterson (Greenock), Mr. J. Stewart Seggie (Edinburgh), and Mr. Wm. J. Wood (Perth), all of whom are eligible for re-election.

Notes on Legal Cases.

[The abbreviations at the end of each of the cases refer to the following law reports, where full reports of the case may be found. The Law Reports and other reports are cited with the year and the Division, *e.g.* (1925) 2 K.B.:—

T.L.R., *Times Law Reports*; *The Times*, *The Times* Newspaper; L.J., *Law Journal*; L.J.N., *Law Journal* Newspaper; L.T., *Law Times*; L.T.N., *Law Times* Newspaper; S.J., *Solicitors' Journal*; W.N., *Weekly Notes*; S.C., *Session Cases* (*Scotland*); S.L.T., *Scots Law Times*; I.L.T., *Irish Law Times*; J.P., *Justice of the Peace* (*England*); L.G.R., *Knight's Local Government Reports*; B.& C.R., *Bankruptcy and Company Cases*.

The other abbreviations used in modern reports are H.L., House of Lords; A.C., Appeal Court (House of Lords and Privy Council); C.A., Court of Appeal; Ch., Chancery Division; K.B., King's Bench Division; P., Probate, Divorce and Admiralty Division; C.S., Court of Session (Scotland); J., Mr. Justice (King's Bench or Chancery); L.J., Lord Justice; L.C., Lord Chancellor; M.R., Master of the Rolls; N.I., Northern Ireland; P., President of Probate, Divorce and Admiralty.]

COMPANY LAW.

Re Dunstable Portland Cement Company.

Meaning of "Surplus Assets."

A limited company's Memorandum of Association provided that the preference shareholders should be entitled "in a winding up to such a share of the surplus assets as shall provide for the holders of preference shares an amount per share equal to one-half of the amount per share provided for the holders of ordinary shares, but so that the total sum so provided for the holders of preference shares shall not exceed five shillings per share, the preference shareholders being entitled to no further participation in the profits or assets.

It was held that the expression "surplus assets" meant what was left after the payment of debts and the repayment of the whole of the preference and ordinary capital.

Ch.; (1932) 48 T.L.R., 223.)

INSOLVENCY.

In re J. Burn.

Refusal by Trustee to Convene Meeting.

Under the Bankruptcy Act, 1914, the Court having jurisdiction in bankruptcy has the widest possible powers. If, therefore, creditors, in pursuance of a resolution passed at a creditors' meeting, request the trustee or official receiver by virtue of sect. 79 (2) of the Act to summon meetings, and the trustee or official receiver refuse to comply with their request, the Court has ample jurisdiction to decline to order the trustee to carry out the creditors' request to convene the meeting if it considers that the holding thereof would serve no useful purpose and would only result in a useless waste of the assets in the bankruptcy.

(Ch.; (1932) 1 Ch., 247.)

REVENUE.

Inland Revenue Commissioners v. Sneath.

Lunatic's Income.

In estimating the income of a lunatic for the purpose of super tax, it is not permissible to deduct either the lunacy percentage payable by the Court or the remuneration allowed by the Court to the committee. A decision of the Special Commissioners to allow such a deduction in the case of the assessment on the lunatic's income for a previous year does not make the matter *res judicata* for subsequent years.

(C.A.; (1932) 48 T.L.R., 241.)

Consolidated London Properties, Limited, v. Johnstone.

Assessment of Flats in Metropolis.

The appellants were the owners of a block of flats in the metropolis and were liable for certain expenses, including external repairs. The flats were assessed separately in the valuation list under the Valuation (Metropolis) Act, 1869, and the appellants were, as the landlords, assessed to income tax in respect of each flat under Rule 8 (C) of No. VII, Schedule A, of the Income Tax Act, 1918, the assessments being for the same amounts as the gross values in the valuation list, but there was no assessment of the entire building as directed in that rule. The General Commissioners were of opinion that the income tax assessments should follow the assessments as fixed under the Act of 1869, and the appropriate deductions should be allowed therefrom in the case of each flat. They accordingly reduced the assessments by amounts arrived at in accordance with the scale in paragraph 3 of Rule 7 of No. V of Schedule A.

It was held by the House of Lords that under Rule 7 (2), if the net income exceeded the annual value by more than the authorised deduction which would have been allowable if the assessment had been on the net income, the appellants were not entitled to any further deduction, and therefore an inquiry must be made as to outgoings, and that the case must be remitted to the General Commissioners to determine what deduction, if any, should be allowed in respect of each assessment on the basis that the amount of the outgoings referred to in Rule 7 (2) was to be ascertained separately as to each flat and as to each year of assessment.

(H.L.; (1932) 48 T.L.R., 229.)

Hoare & Co., Limited, v. Collyer.

Aggregation.

A brewery company, as an incident of the profitable working of their business, acquired licensed houses which they let to tied tenants, who in some cases paid a premium as well as a rent. After the premium had been taken into account it was found that in some cases the tied tenant paid a rent less than the Schedule A valuation, and in some cases more. If the rents and premiums of all the tied houses were aggregated, no loss in rent had been suffered by the company in consideration of the tie.

It was held by the House of Lords, reversing the decision of the Court of Appeal (see *Incorporated Accountants' Journal*, December, 1930, p. 116), that in considering whether an expense had been incurred by the company in the letting of tied houses which under Schedule D could be deducted from the profits of the business as having been wholly or exclusively laid out or expended for the purposes of the trade, each house was to be taken separately, so that any loss on the letting of one house could be deducted without regard to any gain on another.

(H.L.; (1932) 48 T.L.R., 256.)